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A Better Place For You

Co-operators Life Insurance Company

ANNUAL REPORT 06

Organizational Profile

- One of the 10 largest life insurance organizations in Canada, with assets under management of $3.8 billion
- Based in Regina, Saskatchewan
- Employs over 900 people
- Provides life insurance protection to 590,000 Canadians under individual and group contracts
- Provides and administers extended health, dental and disability group benefits to 292,000 employees
- Manages $1.8 billion in funds to help Canadians reach their savings goals and meet their post-retirement needs
- Protects over a million Canadians and visitors to Canada through travel insurance programs

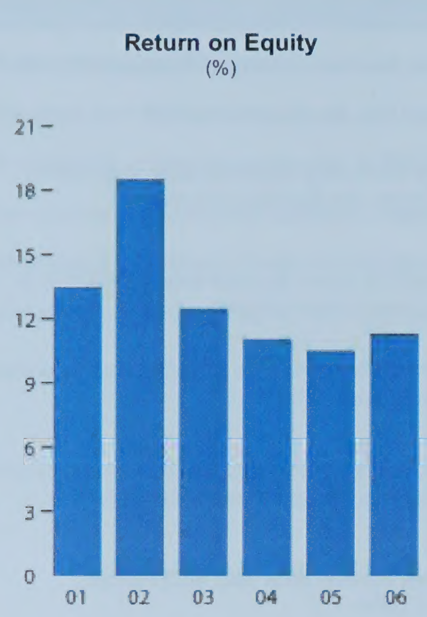
Co-operators Life Insurance Company At a Glance

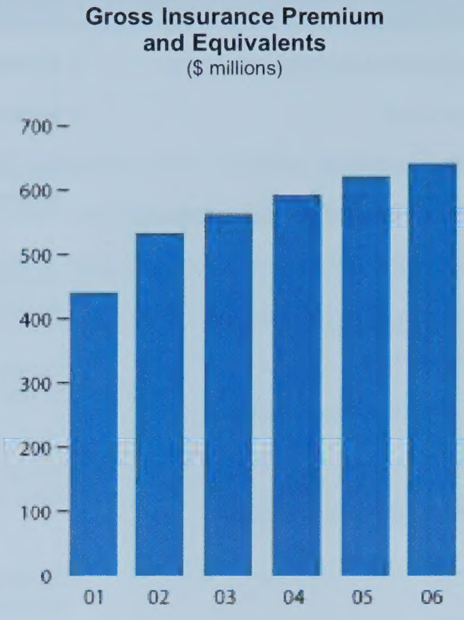
Business Segments	Products	2006 Highlights
Individual Insurance	▸ Universal life, permanent and term insurance ▸ Critical illness insurance ▸ Mortgage disability insurance ▸ Accidental death and dismemberment insurance	▸ Individual insurance premium increased by 8% ▸ Expanded into the Quebec market ▸ Provided third party administration services to another federally licensed insurer
Group Insurance	▸ Life insurance ▸ Accidental death, disease and dismemberment insurance ▸ Health insurance including drug coverage ▸ Dental insurance ▸ Short- and long-term disability insurance	▸ Realigned the sales and marketing structure to become more client-focused ▸ Commenced a restructure of processes to achieve sustainable improvement ▸ Implemented an electronic document management system and expanded Internet services
Credit Union Member	▸ Life insurance ▸ Disability insurance ▸ Loss of employment insurance	▸ Strong net income after tax, $0.5 million ahead of 2005
Travel Insurance	▸ Out-of-province emergency health insurance ▸ Emergency travel assistance ▸ Health insurance for visitors to Canada ▸ Trip cancellation insurance	▸ Implemented business-to-consumer sales and service ▸ Invested in capabilities that will allow expansion to new markets including entrance into the Quebec market and updated products

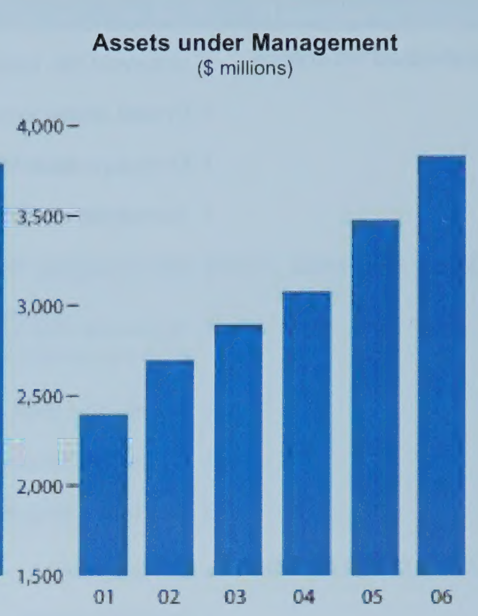
Wealth Management	Individual and group wealth management, offering guaranteed rate accounts and segregated fund options
	▸ Retirement savings plans:
	  ▸ Defined contribution registered pension plans
	  ▸ Group registered retirement savings plans
	  ▸ Individual registered retirement savings plans
	▸ Non-registered investment plans
	▸ Payout annuities and other retirement payout products
		▸ Wealth management contributions exceeded the prior year by 46% for individual products and 315% for group products
		▸ Developed a group retirement income product for staff of The Co-operators

Surplus		▸ After-tax income increased 8% over prior year due to strengthening stock markets, supplemented by provision releases

This annual report may contain statements about expected future events and financial results that are forward-looking in nature, and, as a result, are subject to certain risks and uncertainties. The Company's actual results may differ materially due to a variety of factors, including legislative or regulatory developments, competition, technological change, capital markets, interest rates and general economic conditions in North America or internationally. These and other factors should be considered carefully and readers should not place undue reliance on the Company's forward-looking statements as set forth elsewhere in this annual report. The discussion of the financial condition and results of operations of the Company contained in this annual report should be read in conjunction with the consolidated financial statements and notes included elsewhere in this annual report.

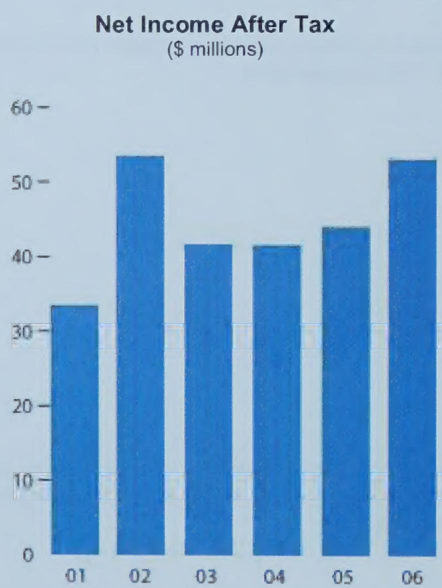


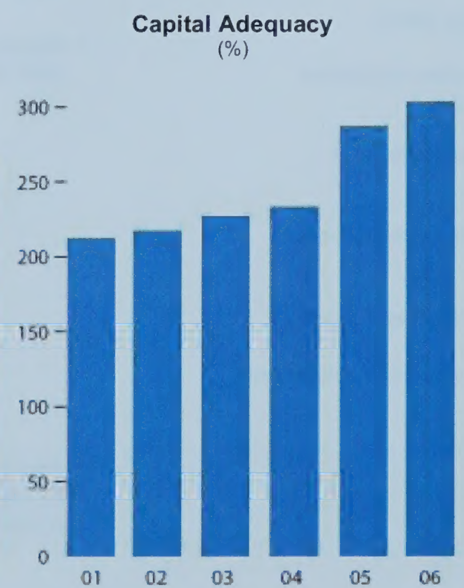


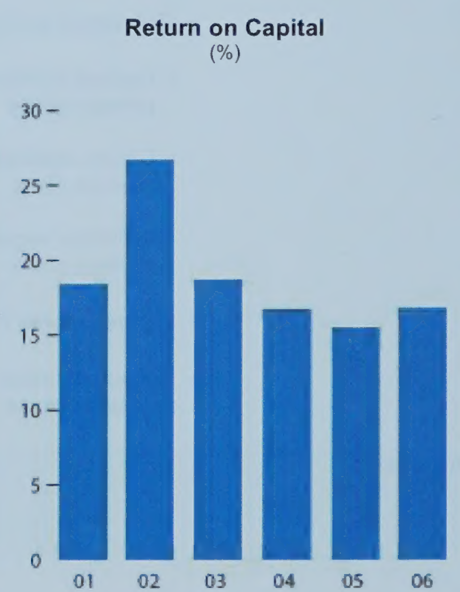


Measure	2006 Target	2006 Performance	2007 Target
Return on equity	10%	11%	8%
Gross insurance premium and equivalents*	$667 million	$641 million	$681 million
Assets under management	$3,420 million	$3,824 million	$3,970 million

* differs from audited statements due to recognition of Administration Services Only (ASO) business







Business Segment Performance - Net Operating Income

	2006	2006		2005		2004		2003		2002		2001	
(thousands)	ROC %	$	%	$	%	$	%	$	%	$	%	$	%
Individual insurance	10.3	10,531	19	5,914	13	7,474	18	10,036	24	10,706	20	13,096	39
Group insurance	3.2	2,430	5	916	2	53	–	5,040	12	9,781	18	1,402	4
Credit union member	37.0	9,390	18	8,927	20	7,592	18	9,576	23	11,154	21	7,368	22
Travel insurance	10.1	1,017	2	801	2	3,051	7	3,189	8	959	2	–	–
Wealth management	13.5	4,074	8	3,739	9	2,975	7	1,721	4	14,608	27	1,293	4
Surplus	34.6	25,568	48	23,683	54	20,392	49	12,129	29	6,334	12	10,259	31
Total	16.8	53,010	100	43,980	100	41,537	100	41,691	100	53,542	100	33,418	100

Return on capital (ROC) for business segments is calculated based on Minimum Continuing Capital and Surplus Requirement (MCCSR) at 150%.

Minimum Continuing Capital and Surplus Requirement (MCCSR)

	2006	2005	2004	2003	2002	2001
MCCSR	303%	287%	233%	227%	217%	212%

Ratings

Rating Agency	2006	2005	2004	2003	2002	2001
A.M. Best*	A	A	A	A-	A-	A

* the premier rating agency for Canada's insurance industry

Message from the Chairperson and Chief Operating Officer

At the end of 2006, our four-year strategic plan came to completion. The plan delivered strategic milestones, a new way of interacting with clients, and a commitment to our six areas of focus. We built a strong and solid foundation over the past four years. Cementing this foundation required a bit of a balancing act, as we brought the four-year plan to fruition, while continuing to keep an eye on how the strategy would guide us into the future. We worked carefully to weigh "current implementation" with "future positioning." After all, achieving balance ultimately creates stability – and stability is the basis of a strong foundation.

And now, as we build a plan for the coming years, we can clearly see the groundwork our initial plan laid for us – and the opportunities it presents.

Looking at the 2006 results – and our plans for 2007 and beyond – you'll notice a change in our strategic areas of focus. While our overall strategy remains the same – including the heart of our organization, our mission, vision, and values – we have refocused these areas to more accurately reflect our current organizational priorities.

Financial Strength

Financial strength and profitability are the cornerstones of our foundation; allowing us to grow, meet our clients' changing needs, and deliver on promises. We are pleased to report that Co-operators Life posted another strong year.

Pre-tax earnings at Co-operators Life reached a record $74.0 million, up 11.1% with profitability positively impacted by a stable interest rate environment, improved claims experience and strong common stock performance.

The importance of a strong foundation is reflected in our focus on our capital base. We've continued to manage our capital effectively, as evidenced by our 2006 financial strength ratings. We improved the Minimum Continuing Capital and Surplus Requirement (MCCSR) for life insurance to 303%. These ratings surpass the minimum target of 150%, as set by the Office of the Superintendent of Financial Institutions.

Growth

Co-operators Life had a solid year in 2006, with written premium ($686.9 million) plus administrative services and pooled funds ($111.7 million) totalling $798.6 million, up 15.6% from the previous year. Wealth management assets under management grew to $1.8 billion, up 14.9%. This was due to very strong sales of individual savings products and the sale of a large group annuity contract.

We are proud to report that another significant milestone was realized in 2006, as Co-operators Life began selling individual life insurance in the province of Quebec. "Co-operators" was launched on May 1, 2006, signing on three managing general agencies and 54 contracted advisors who offer Co-operators Life insurance products. Expanding our presence in Quebec – both from a business and ownership perspective – remains an opportunity, and we will actively pursue ways to continue to grow in this market.

We also implemented a third party administrative arrangement with another federally licensed insurer – a testament to our excellence in administering individual insurance products.

Clients

Our statement of values says that "our success depends on meeting and anticipating our clients' needs." Clients are the genesis of our existence – they anchor the foundation upon which we were built, and are the reason we are in business today.

It's our confidence in this philosophy that has led to our ever-evolving client relationship management strategy. Our client focus was enhanced by the:

- Implementation of an electronic document management system for disability claims which improved our servicing capabilities
- Alignment of the group insurance sales and marketing structure
- Launch of updated travel products incorporating the best of our merged travel insurance subsidiaries
- Implementation of a business-to-consumer sales and service function for travel insurance
- Development of a Group RRIF product for Co-operators staff which will launch in 2007

We've taken significant steps towards serving stakeholders in both official languages, including the launch of our new bilingual website at www.cooperators.ca. Across the board, we're making the investment and increasing our ability to provide clients, staff members, and member-owners, with more English and French options.

These initiatives are all steps towards achieving our vision of being "where Canadians are, with the financial security products and services they need, when they need them, however they wish to buy them"– a vision that guides us well as we continue to build and grow.

Co-operatives

While our organization is guided by its mission, vision and values, we also subscribe to the seven co-operative principles that guide co-ops worldwide, including over 10,000 co-operatives and credit unions in Canada. As a co-op, we value people, partnerships, and communities; in doing so, we benefit from diverse representation and input on a national and international scale.

Our values encompass what we believe, and like our vision, they remain constant. We believe in the co-operative principles – principles that are demonstrated in our business structure and our relationships. These principles are the common thread throughout new initiatives, growth, or changes that we experience or embark upon.

And while we have experienced growth in a multitude of areas, from financials to clients, we've continued to focus on partnerships with our member-owners. Our member-owners are the mortar of our co-operative organization – and with each new member-owner, we all become stronger.

We continue to be the preferred provider of financial security products in the co-operative sector. Group insurance premium in-force growth grew 12.4% over 2005. We also enrolled members of three member-owners into our travel insurance program.

As we build upon our co-operative foundation, we remain committed to providing products and services to co-ops across Canada. As well, we celebrated our 20th anniversary with Credit Union Insurance Services (CUIS) in 2006. This thriving joint venture with CUMIS provides products and services to credit unions and their members.

Trust and Reputation

It's the bottom line, the top line, ... and everything in between. Trust and reputation is about *who* we are, *what* we do, and it's sold with every insurance policy. Ultimately, financial security is about peace of mind.

Since trust and reputation was added as a strategic area of focus in 2004, we've worked hard to build upon our reputation as a trusted organization. We've implemented initiatives to educate governments, the public, and internal and external stakeholder groups regarding our approach to corporate responsibility.

In 2007, our strategic plans continue to focus on responsible, sustainable practices. We'll be working to develop metrics to help us better gauge our progress in the areas of economic, social, and environmental impact, and we will create a "sustainability" vision and strategy, which will provide governance and policy framework regarding corporate responsibility.

We've got ongoing work to do, but our trust and reputation index scores indicate that increasingly, our clients see us in a more positive light.

Human Resources

All of our goals in terms of being client-focussed and being "the insurer of choice" are reliant upon having a skilled and engaged workforce. The strategy cannot be realized without a commitment from our internal stakeholders.

Our next four-year strategy clearly shows that we will be more consciously measuring and managing an organization that is resilient, embraces change, seeks out innovation, creativity and diversity, and is made up of people who embrace this vision.

In 2006 we revamped the Performance Management and Development program which will facilitate improved communication between management and staff; this will improve our ability to achieve our goals.

A Year of Implementation and Accomplishments; A Year of Growth

Now our journey requires us to take the next step – to use the foundation we've built to cement multi-client relationships in a deeper and more personal way. What matters, is that we make a difference in the eyes of our clients.

Our blueprint comes to life because of the valuable relationships we share with our clients, staff members, agents, broker partners, member-owners, Board of Directors, and community partners. Each year, they lead us into the future and provide the support, motivation and inspiration to keep building – bigger, stronger, and better.

Peter Podovinikoff (signed)
Chairperson, Board of Directors

Dan Thornton (signed)
Chief Operating Officer

Management's Discussion and Analysis
As at December 31, 2006

The information in this discussion should be read in conjunction with the Company's financial statements and notes thereto.

Overview

Co-operators Life Insurance Company has provided life insurance, health insurance and wealth management products to individuals and employee and association groups for over 60 years. Diversification of risk is achieved by being active in various lines of business, employing multiple distribution methods and actively selling in all regions of Canada. The Company provides life insurance protection to more than 590,000 Canadians; provides and administers extended health, dental and disability group benefits to 292,000 employees; manages $1.8 billion of wealth management assets designed to help Canadians achieve their financial goals; and protects over a million Canadians and visitors to Canada through travel insurance programs.

This section contains management's discussion of the Company's financial position and performance for the year ended December 31, 2006, along with forward-looking statements about expected future events and financial results. Readers of this section should review the entire annual report for additional commentary and information. The table below outlines the structure of management's discussion and analysis.

A.	Understanding Our Business	An overview of the specialized accounting used in the life insurance industry, including explanations of the business structure, products and pricing and sources of earnings.
B.	Financial Review	A review of the Company's overall financial performance.
C.	Business Segment Analysis	An analysis of the operations and financial results of each of our business segments.
D.	Capital and Risk Management	A discussion of the risks inherent in the business along with the Company's risk management framework and a summary of the Company's approach to capital management.
E.	Outlook	Management's view of the Company's outlook in upcoming years.

A. Understanding Our Business

An understanding of our business is necessary for interpretation of our results. We provide the following overview of our business structure, product and pricing philosophy and sources of earnings as support for our financial review.

A.1 Business Structure

The Company operates a shareholder account and a participating ("par") account. The shareholder account includes all non-participating business, while the par account includes all participating business. Participating policyholders are eligible to share in the experience gains and losses of the par account. Net income attributable to shareholders includes the earnings on the non-participating business plus transfers from the par account. These transfers represent a portion of the profits from the participating policies.

A.2a Insurance Products

The Company offers individual insurance and group insurance products that provide coverage for future events over a long period of time. The uncertainty of the timing of these events and the long-term nature of these contracts make the recognition of profit unique compared to other industries.

To determine the price of an insurance contract and the associated actuarial liability, we employ actuarial methods that require assumptions about the following:

- The timing and amount of benefit payments
- The timing and amount of future premiums
- The expenses and taxes we will incur in administering the policy
- The timing and impact of policy terminations
- The investment income that will accumulate on the excess of premiums received over benefit payments, expenses and taxes

Because each product has different characteristics and risks, each product requires its own set of assumptions. The assumptions are used to calculate the future liability for each policy so we can record the actuarial liability on our balance sheet. Actuarial liabilities are set up based on the actuary's best estimate of the above assumptions and include an additional amount called a provision for adverse deviation (PfAD). The PfAD recognizes that actual experience may differ from the assumptions made and is determined in accordance with generally accepted actuarial practices. The difference between the present value of all future expected profits of the policy and the present value of PfADs is recognized in income at the time of the sale. This difference is referred to as a pricing gain or loss. As time lapses, the PfADs are released as they are no longer required, creating a stream of profit recognized over the life of the contract.

Profit on group insurance products is recognized in the same manner as individual insurance products. Group insurance products, however, are generally repriced each year at renewal. Group insurance products and services are provided to employee groups and associations under fully insured, Administrative Services Only (ASO) and a combination of insured and ASO contracts.

A. Understanding Our Business (continued)

A.2b Wealth Management Products

Wealth management products are offered on both segregated fund and general fund bases. Our capabilities in both of these product lines allow us to meet shifts in consumer demand caused by changes in capital markets and the interest rate environment.

A.2b(i) Segregated Funds

The Company manages a broad range of segregated funds on a fee basis and records the gross fee income on the Consolidated Statement of Operations. The fees earned are mainly based on a percentage of the market value of the funds administered, which is subject to market fluctuation. Market-based funds are not part of the Company's general funds and are excluded from the Consolidated General Fund Balance Sheet. These funds are included in assets under management.

A.2b(ii) General Funds

General fund investment products have a fixed or guaranteed rate of return or guarantee on the principal. Similar to insurance products, the price and the actuarial liabilities established for these products include assumptions for:

- Investment income
- Mortality
- Expenses and taxes
- Provisions for adverse deviations (PfADs)

As with insurance products, pricing gains and losses are recognized at the time guaranteed funds are sold and the release of PfADs is recognized over the life of the contract.

A. Understanding Our Business

A.3 Sources of Earnings Analysis

In the long run, the profit realized is the difference between the price of the product and the benefits and expenses that are paid out. In each reporting period, the sources of profit and loss flow through many lines on the Consolidated Statement of Operations and are not easily identified.

Sources of Earnings (SOE) analysis is a methodology for identifying and quantifying the various sources of income of a life insurance company. It is an alternative presentation of net income in a different format from the traditional income statement, with emphasis on these sources. It includes an analysis of the difference between actual income and the income that would have been reported had all assumptions at the start of the reporting period been realized during the reporting period.

The analysis is done relative to best estimate assumptions. Best estimate assumptions are generally those that were used in the calculation of the actuarial liabilities at the end of the previous reporting period. For some lines of business, due to the short-term nature of the products, the best estimate assumptions used are those that were used in the most recent product pricing or business plan.

The principal components of the analysis are described below.

A.3a Expected Profit on In-Force Business

The first component of the SOE represents the net income on business in force at the start of the reporting period that was expected to be realized based on the achievement of the best estimate assumptions. Expected profit includes the following:

- Release of PfADs
- Expected net fee income earned on segregated funds, ASO contracts and third party administered business and by our managing general underwriter
- Expected net income on amounts on deposit

A.3b Impact of New Business

This component represents the impact on net income at the time of sale of writing new business during the year. It is equal to the difference between the premiums received and the sum of the expenses incurred as a result of the sale and the new liabilities established at the point of sale. The impact of new business can be positive or negative and is influenced by the pricing gain or loss.

A.3c Experience Gains and Losses

Experience gains and losses emerge when actual experience during the reporting period differs from the best estimate assumptions at the start of the reporting period that are used to calculate the expected profit on in-force business. The impact of currency changes is also reported here. Experience gains and losses may arise on all actuarial assumptions.

A. Understanding Our Business (continued)

A.3d Management Actions and Changes in Assumptions

Net income can be further impacted by changes in valuation best estimate assumptions and other unanticipated activity.

A.3d(i) Management Actions

Management actions represent changes made by and in control of the Company that affect income. Some examples of management actions are: changes in the price of a product, changes in fees or fee structure, changes in investment policy, changes in methodology initiated by management and new or revised reinsurance arrangements on in-force business.

A.3d(ii) Changes in Assumptions

The Company regularly reviews assumptions against actual experience to ensure that they continue to reflect best estimates. Assumptions may be revised to reflect emerging trends. Changes in assumptions are recognized in income immediately by adjusting the actuarial liabilities for the full present value of the change.

In addition to changes in best estimate assumptions for in-force business, this category would also include: changes in criteria for determining the level of PfADs, changes in methodology arising from new actuarial or accounting standards, changes due to refinements in valuation systems and correction of errors.

A.3e Earnings on Surplus

Earnings on surplus represent the investment income earned on the Company's surplus funds, net of expenses allocated to the surplus segment. Surplus assets are those assets that are not allocated to support the liabilities.

A. Understanding Our Business

A.3f Sources of Earnings Analysis – 2006

	Shareholders		Participating Policyholders		Total	
(thousands)	2006	2005	2006	2005	2006	2005
Expected profit on in-force business	24,674	19,416	13,365	15,289	38,039	34,705
Impact of new business	4,627	6,668	(6,682)	(9,762)	(2,055)	(3,094)
Experience gains and losses	(1,256)	(8,037)	8,823	(17,677)	7,567	(25,714)
Management actions and changes in assumptions	4,874	(825)	(9,326)	27,989	(4,452)	27,164
Other	(511)	128	264	84	(247)	212
Earnings on surplus	10,642	10,668	24,518,	22,687	35,160	33,355
Operating income before income taxes	43,050	28,018	30,962	38,610	74,012	66,628
Income taxes	14,728	10,403	6,274	12,245	21,002	22,648
Net operating income	28,322	17,615	24,688	26,365	53,010	43,980
Transfer to shareholders	1,711	1,983	(1,711)	(1,983)	–	–
Net income	30,033	19,598	22,977	24,382	53,010	43,980

B. Financial Review

B.1 Selected Financial Information

	2006	2005	2004	2003	2002	2001
(thousands)	$	$	$	$	$	$
Premium written*	798,608	690,700	637,732	627,766	585,924	512,972
Reinsurance ceded	(45,974)	(40,250)	(37,712)	(46,275)	(36,653)	(24,954)
Net premium – segregated funds	(65,850)	(45,402)	(21,235)	(21,041)	(19,696)	(23,618)
Investment income	151,043	144,657	135,033	116,988	93,596	101,013
Fees and other income*	11,404	7,813	8,053	6,524	2,331	4,852
Policyholder benefits*	510,951	446,201	433,316	415,558	374,281	367,823
Marketing and general expenses	257,711	241,697	225,182	206,139	186,705	149,187
Interest expense	6,557	2,992	199	201	179	337
Net income before taxes	74,012	66,628	63,174	62,064	64,337	52,918
After-tax income attributable to:						
Participating policyholders	22,977	24,382	27,095	17,297	18,468	20,663
Shareholders	30,033	19,598	14,442	24,201	35,002	12,755
Non-controlling interest	–	–	–	193	72	–
Total	53,010	43,980	41,537	41,691	53,542	33,418

* differs from audited statements due to recognition of ASO business and segregated funds

Pre-tax income for 2006 was $74 million, an increase of 11% over 2005. Premium written increased 16%, led by strong wealth management sales. The increase in policyholder benefits can also be attributed to strong wealth management growth, primarily through the addition of a new group annuity.

B. Financial Review

B.2 Sources of Premium Revenue

The breakdown of the Company's premium written by category, business segment and region for 2001 to 2006 is reflected in the following tables. Premium written, as discussed in this section of the annual report, includes deposits to the Company's segregated funds, Administrative Services Only (ASO) premium equivalents and premium assumed from other federally licensed insurers.

Premium Written by Category

	2006	2005	2004	2003	2002	2001
(thousands)	$	$	$	$	$	$
Premium written per audited statement	686,939	608,807	585,167	578,470	533,831	457,154
Self-funded (ASO equivalents)*	45,819	36,491	31,330	28,255	32,397	32,200
Segregated fund net deposits*	65,850	45,402	21,235	21,041	19,696	23,618
Total	798,608	690,700	637,732	627,766	585,924	512,972

* not reflected in the audited statements

Premium Written by Business Segment

	2006		2005		2004		2003		2002		2001	
(thousands)	$	%	$	%	$	%	$	%	$	%	$	%
Individual insurance	132,526	16	123,112	18	114,223	18	106,059	17	99,677	17	93,737	18
Group insurance*	332,402	42	321,285	47	309,609	48	291,240	47	285,643	49	254,897	50
Credit union member	113,594	14	113,862	16	107,467	17	103,156	16	99,826	17	91,419	18
Travel insurance	62,739	8	62,457	9	61,153	10	62,054	10	48,068	8	–	–
Wealth management*	157,347	20	69,984	10	45,280	7	65,257	10	52,710	9	72,919	14
Total	798,608	100	690,700	100	637,732	100	627,766	100	585,924	100	512,972	100

* differs from audited statements due to recognition of ASO business and segregated funds

Premium Written by Region

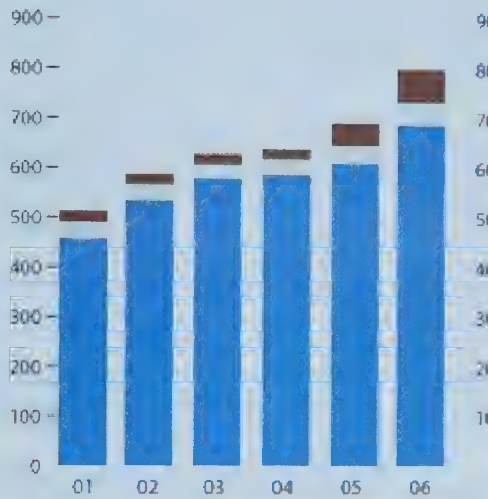
	2006		2005		2004		2003		2002		2001	
(thousands)	$	%	$	%	$	%	$	%	$	%	$	%
British Columbia	79,681	10	76,560	11	72,991	11	73,717	12	66,688	11	48,982	10
Alberta	114,323	14	108,969	16	98,228	15	93,218	15	90,362	16	64,881	13
Manitoba and Saskatchewan	128,416	16	115,565	17	107,793	17	107,037	17	105,316	18	97,934	19
Ontario	396,725	50	313,949	45	289,168	46	280,216	45	259,492	44	237,469	46
Atlantic provinces	64,770	8	63,541	9	57,675	9	59,073	9	55,374	9	56,749	11
Other	14,693	2	12,116	2	11,877	2	14,505	2	8,692	2	6,957	1
Total*	798,608	100	690,700	100	637,732	100	627,766	100	585,924	100	512,972	100

* differs from audited statements due to recognition of ASO business and segregated funds

B. Financial Review

B.2 Sources of Premium Revenue (continued)

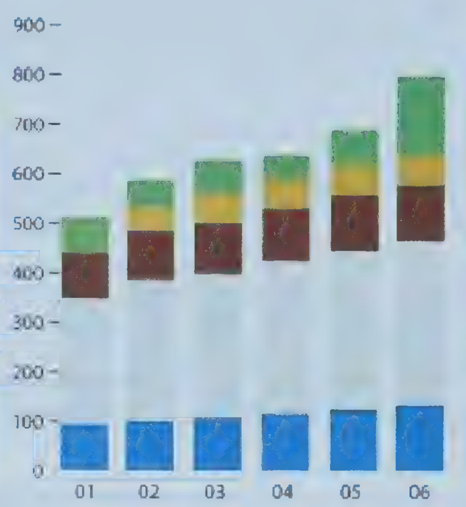
Premium Written by Category
($ millions)



- Premium Written per audited statement
- Self-funded (ASO equivalents)*
- Segregated fund net deposits*

* not reflected in the audited statements

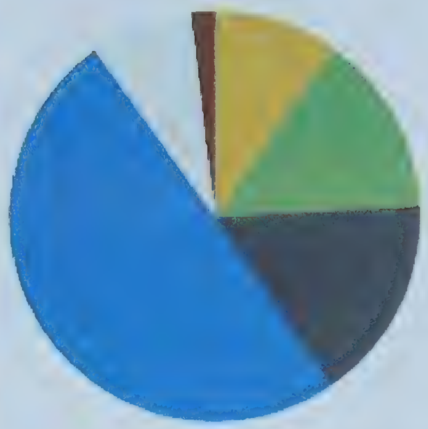
Premium Written by Business Segment
($ millions)



- Individual Insurance
- Group Insurance*
- Credit Union Member
- Travel Insurance
- Wealth Management*

* differs from audited statements due to recognition of ASO business and segregated funds

Premium Written by Region*



- British Columbia
- Alberta
- Manitoba and Saskatchewan
- Ontario
- Atlantic Provinces
- Other

* differs from audited statements due to recognition of ASO business and segregated funds

Premium written, including ASO business and segregated fund net deposits, increased 16% in 2006. Most lines of business exceeded 2005 premium levels.

B. Financial Review

B.3 Investments

The Company's investment objective is to manage its assets prudently, providing steady income flows to support the cash flow and liquidity needs of its insurance and investment products. Investment strategy is reviewed on an ongoing basis and assets are actively managed to match and reflect the characteristics of the underlying policy liabilities.

The Company has established comprehensive policies which set asset mix, specify investment authorities, control credit quality, restrict foreign currency exposure, regulate portfolio diversification and concentration, limit derivatives risk, monitor liquidity risk and establish risk tolerance limits for asset liability management. These policies are reviewed on a regular basis by the Board of Directors of the Company. The notes to the audited financial statements provide an extensive breakdown of asset mix and information on asset quality.

The Company's investment portfolio is managed by Co-operators Investment Counselling Limited, a related party. Co-operators Investment Counselling Limited has been in business since 1985 and currently has $9.9 billion in assets under its management.

B.3a Investment Income

Investment income represents the income earned on all invested assets including assets that support actuarial liabilities. However, since investment income is one of the assumptions used in establishing the actuarial liabilities, it does not directly affect net income except in the surplus business segment. Each year the change in actuarial liabilities, which is included in the statement of operations under "Increase in actuarial liabilities," includes an expected investment income amount. The difference between actual investment income and this expected amount is recognized in net income as an experience gain or loss. The surplus segment does not contain actuarial liabilities and therefore fluctuations in investment income earned on surplus assets directly affect net income.

Investment income in 2006 was $151 million, compared to $145 million in 2005. This $6 million increase was due to asset growth, continuing strong stock performance and provision reductions for mortgages, bonds and real estate.

B.3b Asset Growth

The Company's total general account assets increased $137 million to $2.4 billion in 2006. Invested assets grew by $125 million, or 6%, to a total of $2.3 billion.

Segregated fund assets increased by $217 million, or 18.8%, in 2006 to a total of $1.37 billion at December 31, 2006. The exceptional growth in segregated fund assets resulted from continued strong growth in contributions and market value advances.

B.3c Asset Distribution

The investment portfolio is well diversified by asset category, industry sector, regional location and borrower.

Invested Assets**

	2006		2005		2004		2003		2002		2001	
(thousands)	$	%	$	%	$	%	$	%	$	%	$	%
Short-term and cash	118,099	5	115,880	5	117,264	6	109,135	6	136,152	8	81,560	6
Bonds and debentures*	1,158,695	51	1,084,841	51	1,030,015	53	997,124	53	914,829	52	650,498	46
Mortgage loans*	588,770	26	578,793	27	532,415	29	538,720	29	514,384	29	486,276	34
Preferred and common stock	356,599	16	317,776	15	212,305	10	179,059	10	150,763	9	159,152	11
Real estate*	19,575	1	21,326	1	20,168	1	20,366	1	25,768	1	29,721	2
Other	19,378	1	17,777	1	17,249	1	16,870	1	16,122	1	14,133	1
Total	2,261,116	100	2,136,393	100	1,929,416	100	1,861,274	100	1,758,018	100	1,421,340	100

* before encumbrances and general provisions for impairment
** excludes policy loans

B. Financial Review

B.3 Investments (continued)

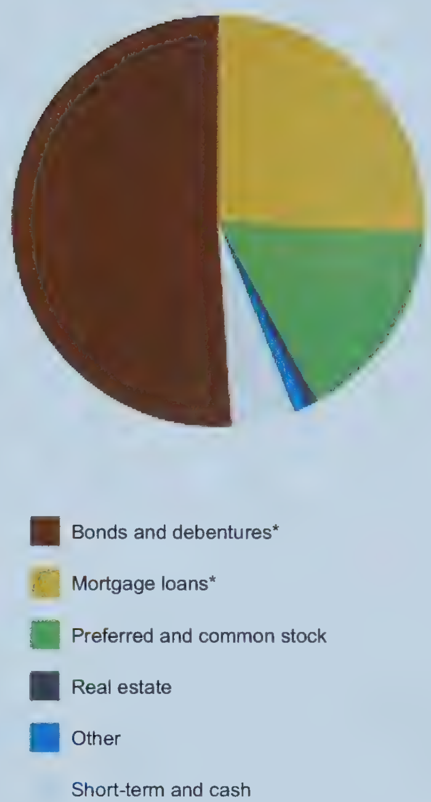
B.3d Asset Quality

Maintenance of a high-quality investment portfolio reduces the Company's exposure to loss in recessionary periods and provides for consistent long-term results. The Company's policy requirements for high-quality investments are stringent. The Company's portfolio is well diversified, without undue exposure to single entities, regions, industry groups or sectors.

Short-term investment holdings are limited to those rated R-1 by the Dominion Bond Rating Service. The quality of bond holdings is high, with 95.5% of the portfolio rated as A or higher by the Dominion Bond Rating Service at year-end. Only 0.2% of the bond portfolio was rated as below "investment-grade" in 2006. The mortgage portfolio is similarly well diversified, with residential loans making up 62.1% of total mortgages. Government-insured loans represent 48.1% of the total mortgage portfolio. There was only one mortgage loan in arrears greater than 60 days.

The Company's stock holdings are essentially composed of shares of large, well-capitalized Canadian, U.S. and foreign (E.A.F.E.) companies.

Invested Assets 2006



* before encumbrances and general provisions for impairment

B.3e Provisions for Asset Defaults

A very significant investment risk to which the Company is exposed is the risk due to declines in credit quality leading to defaults in the payment of principal or interest on mortgages and loans. Consequently, the Company reviews its investment portfolio monthly in an internal Watch List to identify investments where values may be impaired. Every quarter, the Watch List is scrutinized by the Investment Forum (a committee comprised of the Chief Executive Officer and Chief Financial Officer of The Co-operators Group, the Chief Operating Officer of Co-operators Life and senior investment and finance managers) in order to keep senior management apprised of any risk of loss from invested assets. The Watch List is also reviewed quarterly by the Investment Policy Committee of the Board.

Provision releases and recoveries on impaired assets totalled $4.7 million during the year. Included in that amount were recoveries on the Home Equity Plan reverse mortgage loans of $1.4 million and reduction of the real estate, mortgage and bond provisions of $3.5 million. At the end of the year, the Company held $5.0 million in general loan provisions.

B. Financial Review

B.4 Fees and Other Income

The principal components of fees and other income are fees resulting from the management of segregated funds and Administrative Services Only (ASO) contracts.

B.5 Policyholder Benefit Expense

	2006	2005	2004	2003	2002	2001
(thousands)	$	$	$	$	$	$
Increase in actuarial liabilities	67,489	28,022	41,278	47,163	35,242	41,357
Policyholder payments*	443,462	418,179	392,038	368,395	339,039	326,466
Total	510,951	446,201	433,316	415,558	374,281	367,823

* differs from audited statements due to recognition of ASO business

Policyholder benefit expense, which can be separated into increases in actuarial liabilities and policyholder payments, saw an increase of 15% in 2006 as compared to 2005. The change in actuarial liabilities increased from 2005 due to strong sales of wealth management annuity products. Note 6 to the audited financial statements describes the change in actuarial liabilities in greater detail. Policyholder payments increased 6% over 2005 levels, consistent with the growth in business in force.

B.6 Marketing and General Expenses

	2006	2005	2004	2003	2002	2001
(thousands)	$	$	$	$	$	$
Marketing	87,126	82,745	74,953	76,092	68,497	46,188
Salaries and benefits	53,460	48,801	43,051	37,774	27,864	25,764
Operating expenses	58,056	53,997	54,492	48,813	43,825	33,407
Reinsurance expense allowances	59,069	56,154	52,686	43,460	46,516	43,828
Total	257,711	241,697	225,182	206,139	186,705	149,187

Marketing expenses increased $4.4 million, or 5% over 2005 due to increased sales.

The largest component of reinsurance expense allowances relates to the credit union member business segment and represents the Company's 50% share of controllable expense incurred under the coinsurance agreement to provide insurance to credit union members. Deducted from the assumed reinsurance expense allowance is 50% of the controllable expense the Company incurs in providing group insurance benefits to credit union employees.

B.7 Interest Expense

Interest expense for 2006 was $6.6 million, an increase of $3.6 million over the prior year. In July 2005, funds from a private issue of senior unsecured debentures were distributed to the Company from its parent Co-operators Financial Services Ltd. (CFSL) in the form of an unsecured subordinated loan of $120 million. In addition to interest expense, issue costs of $763,000 are being amortized over the life of the loan. The portion attributable to 2006 is $109,000. Note 12 to the audited financial statements describes the interest rates and terms of the subordinated debt in greater detail.

B. Financial Review

B.8 Taxes

	2006	2005	2004	2003	2002	2001
(thousands)	$	$	$	$	$	$
Effective income tax rate	28.4%	34.0%	34.3%	32.8%	16.8%	36.8%
Income taxes	21,002	22,648	21,637	20,373	10,795	19,500
Other taxes						
Premium taxes	10,197	9,944	9,507	9,078	7,856	6,606
Investment income taxes	1,711	1,513	1,492	160	928	930
Property and business taxes	723	770	817	817	814	990
Payroll taxes	1,886	1,756	1,626	1,573	1,480	1,343
Goods & services tax and sales tax	1,806	2,476	1,300	2,058	1,858	2,115
	16,323	16,459	14,742	13,686	12,936	11,984
Total	37,325	39,107	36,379	34,059	23,731	31,484

Income taxes have decreased by 7% compared to 2005. The effective tax rate has decreased by 6% to 28% in 2006. The major components of this decrease were a 4% decrease in current and forecasted future statutory income tax rates and a 2% decrease in non-taxable investment income. Note 15 to the audited financial statements provides a reconciliation of the statutory tax rate to the effective tax rate.

C. Business Segment Analysis

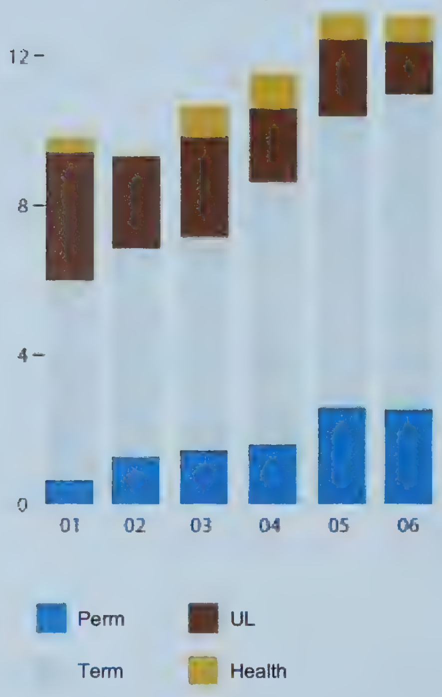
C.1 Individual Insurance

The Company offers a complete portfolio of individual insurance products including permanent, term, accidental death, universal life, critical illness and mortgage disability income. Our popular term life product, Versatile Term™, and our universal life product offer premium rates which reflect individual health and lifestyle choices.

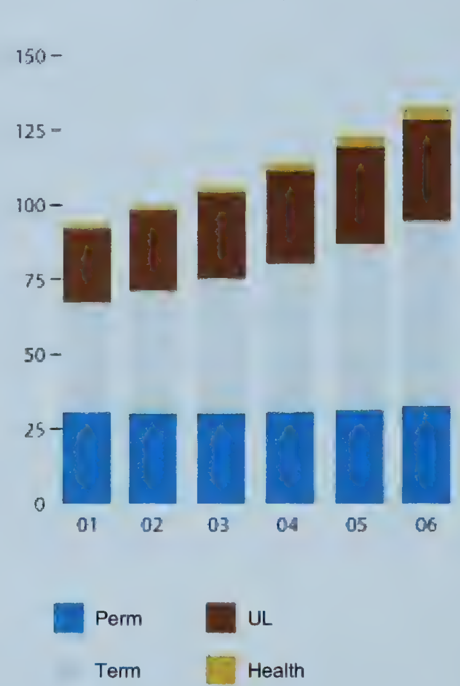
The individual insurance division's objectives are to:

- Achieve steady growth
- Earn an appropriate rate of return while balancing competitive pressures
- Reduce unit costs by decreasing controllable expenses, growing the in-force business and providing third party administrator services to other life insurers

Individual Insurance New Sales Premium
($ millions)



Individual Insurance Premium Written
($ millions)



Individual insurance premium written by all sources for 2006 was $133 million. Premium written has increased over 2005 by 12% for term life insurance, 4% for permanent life insurance and 3% for universal life insurance. Individual health premium increased 13% over 2005 due to strong interest in the critical illness product.

Achievements in 2006 include:

- 8% increase in premium written
- $10.5 million net income after tax
- Entered the Quebec market
- Implemented a third party administration arrangement with another federally licensed insurer
- Reviewed new business processes and improved service delivery to agents and clients

Individual life products, except for the products sold in Quebec, are distributed primarily through the Canada-wide network of The Co-operators multi-product agents. This channel continues to contribute to our success, which is demonstrated by the issuance of 3% more policies in 2006 than 2005. Individual life products are distributed separately through independent distribution channels in Quebec.

C. Business Segment Analysis

C.1 Individual Insurance (continued)

Moving forward, we will continue to strengthen our presence in the Quebec market and grow The Co-operators multi-product distribution channel. As well, we will focus on improving the performance of the universal life insurance product and implement a refined new product development process.

Sources of Earnings

	Shareholders		Participating Policyholders		Total	
	2006	**2005**	**2006**	**2005**	**2006**	**2005**
(thousands)	$	$	$	$	$	$
Expected profit on in-force business	4,463	3,155	9,811	9,595	14,274	12,750
Impact of new business	1,550	(1,221)	(6,125)	(9,651)	(4,575)	(10,872)
Experience gains and losses	948	806	8,710	(23,500)	9,658	(22,694)
Management actions and changes in assumptions	850	657	(8,075)	28,853	(7,225)	29,510
Other	(268)	45	283	190	15	235
Earnings on surplus	–	–	–	–	–	–
Operating income before income taxes	7,543	3,442	4,604	5,487	12,147	8,929
Income taxes	2,544	1,158	(928)	1,857	1,616	3,015
Net operating income	4,999	2,284	5,532	3,630	10,531	5,914
Transfer to shareholders	–	–	(465)	(541)	(465)	(541)
Net income	4,999	2,284	5,067	3,089	10,066	5,373

Favourable experience with respect to all major experience elements in 2006 created the gain of $9.7 million. This was offset by changes in actuarial assumptions which decreased net income before tax by $8.3 million. In addition, management action, in the form of a change to investment strategy, contributed $1.1 million to net income before tax in 2006.

C. Business Segment Analysis

C.2 Group Insurance

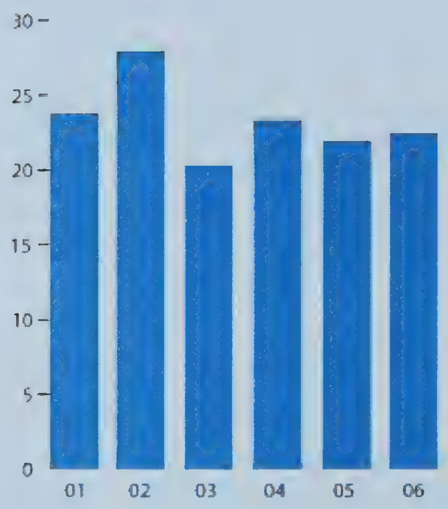
The Company offers a complete range of group benefits products including life, optional life, accidental death, disease and dismemberment, dependent life, prenatal benefits, short-term and long-term disability benefits, health and prescription drug benefits not provided by provincial medical plans, dental care, vision care, health spending accounts and services for prevention and management of absenteeism.

Group benefits products and services are provided to employee groups and associations under fully insured, Administrative Services Only (ASO) and a combination of insured and ASO contracts. Policies are renewable yearly and subject to regular pricing adjustments. Group benefit products are placed through independent brokers, third party administrators and The Co-operators multi-product agents, with distribution managed through The Co-operators multi-product group distribution channel.

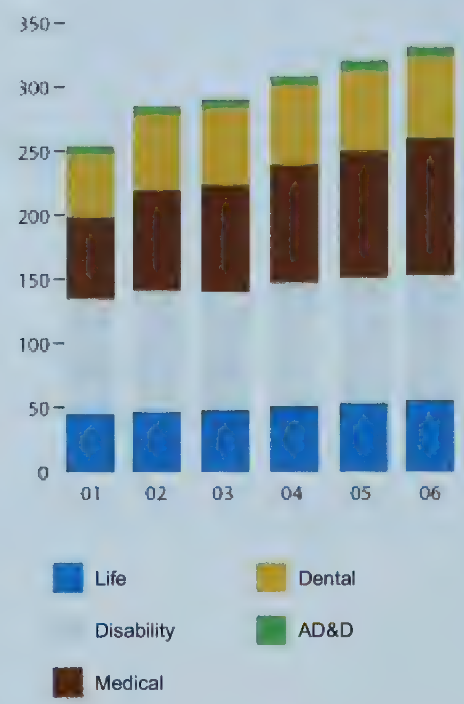
The objectives of the group benefits operations are to:

- Price products to provide fair value to the client and acceptable return to the Company
- Reduce the ratio of controllable expense to premium revenue
- Increase market share by direct sales efforts and forming strategic alliances

Group Benefit New Sales Premium
($ millions)



Group Benefit Premium & Equivalents
($ millions)



Our strategies related to controlled growth, sound pricing and underwriting and superior claims management are intended to produce an appropriate return on required capital. Profitability in 2006 fell short of expectations primarily due to unfavourable experience in the disability and medical product lines.

C. Business Segment Analysis

C.2 Group Insurance (continued)

Achievements in 2006 include:

- Completed an alignment of the sales and marketing structure in keeping with the application of best practices, the multi-channel distribution strategy and the long-term objective to increase client focus
- Commenced a restructure of processes to achieve sustainable improvements
- Implemented an electronic document management system for improved claim turnaround and customer service
- Expanded our Internet services

Moving forward, we will keep abreast of health care delivery in Canada. We will continue to expand our Internet-based servicing options and relationship building programs with distribution sources. Our focus will be on process efficiencies, leading to further service and expense management improvements.

Sources of Earnings

	Shareholders		Participating Policyholders		Total	
	2006	2005	2006	2005	2006	2005
(thousands)	$	$	$	$	$	$
Expected profit on in-force business	10,283	9,983	1,796	1,649	12,079	11,632
Impact of new business	–	–	–	–	–	–
Experience gains and losses	(7,421)	(12,445)	484	3,630	(6,937)	(8,815)
Management actions and changes in assumptions	(1,010)	(1,256)	(291)	(125)	(1,301)	(1,381)
Other	(80)	–	35	–	(45)	–
Earnings on surplus	–	–	–	–	–	–
Operating income before income taxes	1,772	(3,718)	2,024	5,154	3,796	1,436
Income taxes	637	(1,346)	729	1,866	1,366	520
Net operating income	1,135	(2,372)	1,295	3,288	2,430	916
Transfer to shareholders	–	–	(335)	(374)	(335)	(374)
Net income	1,135	(2,372)	960	2,914	2,095	542

Net income before tax in 2006 for group insurance was adversely affected by a net experience loss of $6.9 million, primarily arising from the long-term disability line. A correction related to commission accounting reduced income by a further $1.1 million.

C. Business Segment Analysis

C.3 Credit Union Member

The Company participates in a joint venture, Credit Union Insurance Services (CUIS), with CUMIS Life Insurance Company, another federally licensed insurance company. Under the CUIS marketing program, members of the Canadian co-operative financial system are provided life, disability and loss of employment insurance products. Members purchase these products to reduce or eliminate outstanding balances on personal loans, residential mortgages, business and agricultural loans and personal lines of credit in the event of loss of life or livelihood.

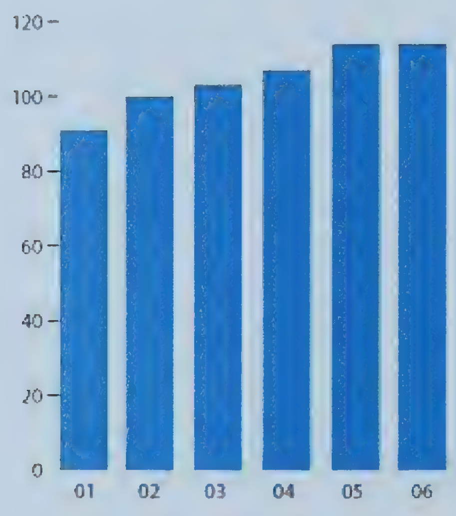
The market for the CUIS program consists of Canadian financial co-operatives, including credit unions, caisses populaires, provincial credit union centrals and francophone federations, the Credit Union Central of Canada and Concentra Financial.

Co-operators Life and CUMIS Life share the financial results and costs of the CUIS program on a coinsurance basis. Premium and policy benefit expenses are reflected on the appropriate lines of Co-operators Life's statement of operations. Marketing and administrative expenses are shown on the reinsurance allowances line of the statement of operations.

Achievements in 2006 include:

- $114 million of premium assumed from CUMIS
- $9.4 million net income after tax

Credit Union Member Premium Assumed
($ millions)



C. Business Segment Analysis

C.3 Credit Union Member (continued)

Sources of Earnings

	Shareholders		Participating Policyholders		Total	
	2006	2005	2006	2005	2006	2005
(thousands)	$	$	$	$	$	$
Expected profit on in-force business	7,732	6,259	(218)	(199)	7,514	6,060
Impact of new business	4,404	6,435	–	–	4,404	6,435
Experience gains and losses	(2,356)	901	–	–	(2,356)	901
Management actions and changes in assumptions	5,123	596	–	–	5,123	596
Other	–	–	–	–	–	–
Earnings on surplus	–	–	–	–	–	–
Operating income before income taxes	14,903	14,191	(218)	(199)	14,685	13,992
Income taxes	5,374	5,137	(79)	(72)	5,295	5,065
Net operating income	9,529	9,054	(139)	(127)	9,390	8,927
Transfer to shareholders	–	–	8	7	8	7
Net income	9,529	9,054	(131)	(120)	9,398	8,934

C. Business Segment Analysis

C.4 Travel Insurance

The Company's managing general underwriter, TIC Travel Insurance Coordinators Ltd. (TIC) is one of the top travel insurance providers in Canada. TIC offers out-of-province emergency health insurance and travel-related products and coverage for visitors to Canada and newly landed Canadians. Claims and travel assistance representatives are available 24 hours a day, 7 days a week, to respond to and assist with any emergencies or consumer needs. The products are distributed through multiple channels, including licensed insurance agents, travel agents, credit unions and an in-house call centre.

The travel division's objectives are to be the Canadian champion of travel insurance through:

- Developing fully bilingual capabilities
- Capitalizing on integration opportunities through adoption of best practices and achieving economies of scale
- Supporting multiple distribution channels
- Enhancing point of sale systems for ease of purchase
- Leveraging the resources and brand of the Company

In 2005, the Company's managing general underwriter subsidiaries – T.I.C. Agencies Ltd. and Trent Health Insurance Services Corporation – completed a corporate merger, forming the new company TIC Travel Insurance Coordinators Ltd.

Achievements in 2006 include:

- Implemented business-to-consumer sales and services
- Enrolled members of three co-operatives in travel insurance
- Launched updated products that incorporate best of both from the merged travel companies
- Improved employee engagement and customer satisfaction

Moving forward, we will strengthen our market share while controlling expenses, resulting in premium growth and improved profitability. As well, we will focus on building our presence in the Quebec market and improving the customer experience.

Sources of Earnings

	Shareholders		Participating Policyholders		Total	
	2006	**2005**	**2006**	**2005**	**2006**	**2005**
(thousands)	**$**	**$**	**$**	**$**	**$**	**$**
Expected profit on in-force business	594	270	–	–	594	270
Impact of new business	1,333	2,418	–	–	1,333	2,418
Experience gains and losses	(16)	674	–	–	(16)	674
Management actions and changes in assumptions	–	(374)	–	–	–	(374)
Other	(23)	68	–	–	(23)	68
Earnings on surplus	–	–	–	–	–	–
Operating income before income taxes	1,888	3,056	–	–	1,888	3,056
Income taxes	871	2,255	–	–	871	2,255
Net operating income	1,017	801	–	–	1,017	801
Transfer to shareholders	–	–	–	–	–	–
Net income	1,017	801	–	–	1,017	801

C. Business Segment Analysis

C.5 Wealth Management

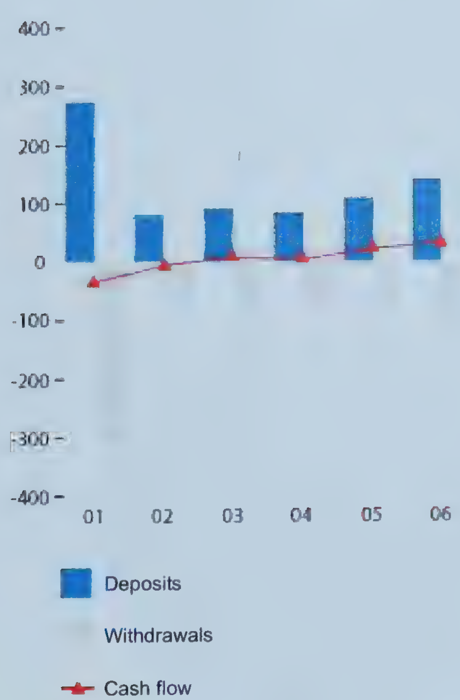
The Company offers individuals and groups a wide range of long-term savings and investment products designed to accommodate pension, retirement and tax planning. Individual annuity plans are offered on both an immediate (payout) and a deferred basis. Individual products are distributed primarily through the Canada-wide network of The Co-operators multi-product agents.

The Company's group annuity contracts are sold to corporate pension plans registered under the *Income Tax Act* (Canada). Funds are placed, at the purchaser's option, in either the general fund of the Company, under which the principal, and in some cases, the interest rates are guaranteed, or in one or more of the pooled segregated funds. Retirement savings plans are also sold to employee groups, providing access to tax-advantaged retirement savings in a cost-effective manner. Group wealth management products are distributed primarily through independent brokers and to a smaller degree through The Co-operators multi-product agents.

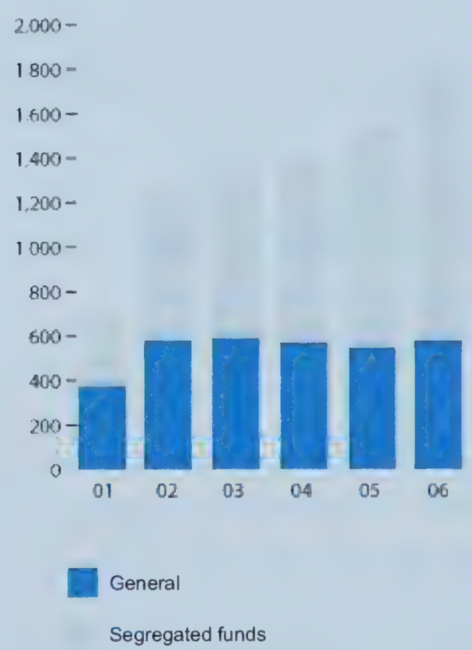
The wealth management division's objectives are to:

- Assist Canadians in planning for and meeting their retirement and saving needs
- Reduce controllable expenses as a percentage of funds managed
- Earn an appropriate rate of return while balancing competitive pressures

Wealth Management Cash Flow
($ millions)



Wealth Management Funds Managed
($ millions)



General fund premium (which includes both considerations for payout annuity products and purchase of guaranteed interest accumulation products) and segregated fund deposits for 2006 were $142 million, a 29% increase over prior year. Net cash flow rose over 2005, increasing from $21.6 million to $31.2 million.

C. Business Segment Analysis

C.5 Wealth Management (continued)

Achievements in 2006 include:

- $4.1 million net income after tax
- 46% increase in individual contributions over the prior year due to very strong sales of Versatile Portfolios™ deferred annuity products
- 315% increase in group contributions over the prior year due to a large group annuity sale
- Increased the number of funds offered under group plans from 22 to 32
- Completed development of a Group Retirement Income product for staff of The Co-operators which will launch in early 2007
- Expanded sales and service capabilities for group wealth management products
- Achieved a lower percentage of controllable expenses to funds managed than prior year

Moving forward, we will continue to focus on increasing the assets under management for both group and individual products. New marketing tools to assist the group marketing team efforts will be created and implemented while products will continue to be monitored to ensure they remain competitive.

Sources of Earnings

	Shareholders		Participating Policyholders		Total	
	2006	2005	2006	2005	2006	2005
(thousands)	$	$	$	$	$	$
Expected profit on in-force business	1,602	(251)	1,976	4,244	3,578	3,993
Impact of new business	(2,660)	(964)	(557)	(111)	(3,217)	(1,075)
Experience gains and losses	7,589	2,027	(371)	2,193	7,218	4,220
Management actions and changes in assumptions	(89)	(448)	(960)	(739)	(1,049)	(1,187)
Other	(140)	15	(54)	(106)	(194)	(91)
Earnings on surplus	–	–	–	–	–	–
Operating income before income taxes	6,302	379	34	5,481	6,336	5,860
Income taxes	2,249	137	13	1,984	2,262	2,121
Net operating income	4,053	242	21	3,497	4,074	3,739
Transfer to shareholders	–	–	(19)	(229)	(19)	(229)
Net income	4,053	242	2	3,268	4,055	3,510

Gains on the sale of assets supporting non-participating payout annuities contributed to the net experience gain in 2006.

C. Business Segment Analysis

C.6 Surplus

The surplus segment is made up of subordinated debt and assets that are not supporting policy liabilities. Assets are managed on a total return basis with the objective of outperforming market indices.

The objectives of the surplus segment are to:

- Hold liquid investments to meet current liability obligations and enable the Company to be responsive to acquisition opportunities
- Outperform market benchmarks for stocks and bonds

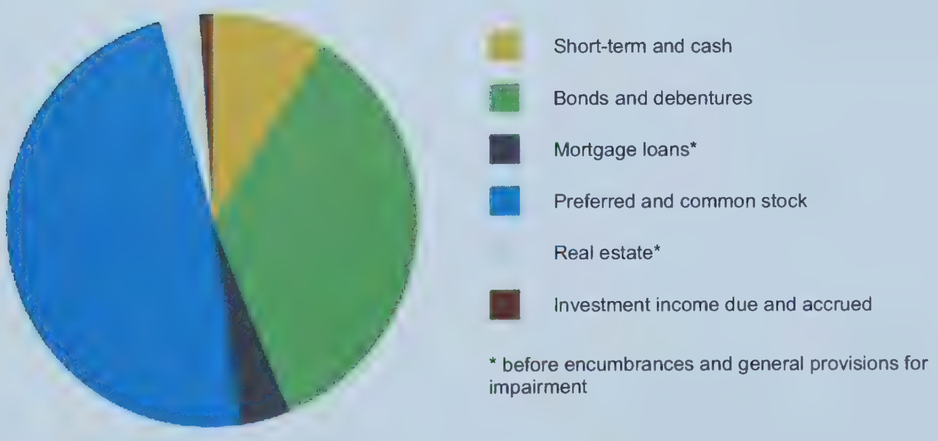
Surplus income before tax, which is primarily made up of investment income, was $35.2 million in 2006, a $1.8 million (5%) increase over 2005. This change is primarily due to a significant increase in share income from dividends and amortization of gains in market values of shares, partially offset by decreased income from Home Equity Plan reverse mortgages as compared to 2005. Investment income in 2007 may not reach the 2006 level due to the non-recurring nature of some of these items.

Surplus Invested Assets

	2006		2005		2004		2003		2002		2001	
(thousands)	$	%	$	%	$	%	$	%	$	%	$	%
Short-term and cash	61,837	9	61,757	10	41,073	9	57,195	13	57,028	15	27,484	9
Bonds and debentures	229,927	35	212,685	34	161,143	36	144,896	34	103,010	28	106,270	33
Mortgage loans*	26,484	4	29,014	5	31,286	7	38,415	9	47,887	13	6,836	2
Preferred and common stock	320,283	48	288,328	47	194,660	43	161,911	38	135,284	36	145,949	47
Real estate*	19,575	3	21,326	3	20,168	4	20,366	5	25,768	7	29,722	9
Investment income due and accrued	5,109	1	4,436	1	3,099	1	3,006	1	2,465	1	1,244	–
Total	663,215	100	617,546	100	451,429	100	425,789	100	371,442	100	317,505	100

* before encumbrances and general provisions for impairment

**Surplus Invested Assets
2006**



C. Business Segment Analysis

C.6 Surplus (continued)

Sources of Earnings

	Shareholders		Participating Policyholders		Total	
	2006	2005	2006	2005	2006	2005
(thousands)	$	$	$	$	$	$
Expected profit on in-force business	–	–	–	–	–	–
Impact of new business	–	–	–	–	–	–
Experience gains and losses	–	–	–	–	–	–
Management actions and changes in assumptions	–	–	–	–	–	–
Other	–	–	–	–	–	–
Earnings on surplus	10,642	10,668	24,518	22,687	35,160	33,355
Operating income before income taxes	10,642	10,668	24,518	22,687	35,160	33,355
Income taxes	3,053	3,062	6,539	6,610	9,592	9,672
Net operating income	7,589	7,606	17,979	16,077	25,568	23,683
Transfer to shareholders	1,711	1,983	(900)	(846)	811	1,137
Net income	9,300	9,589	17,079	15,231	26,379	24,820

D. Capital and Risk Management

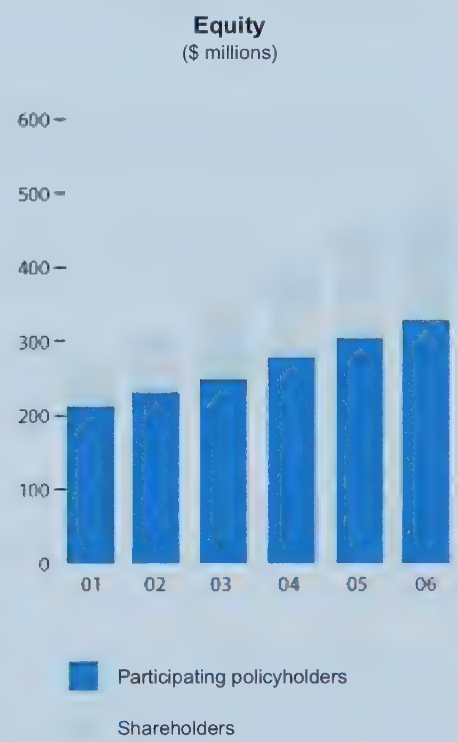
D.1 Capital Resources

The financial strength of the Company continues to grow as 2006 marked the fifth consecutive year pre-tax income exceeded $60 million. The total equity of Co-operators Life has increased by 88% from $265 million at December 31, 2001 to $497 million at December 31, 2006.

The following table shows the breakdown of the Company's equity for the last six years.

	2006	2005	2004	2003	2002	2001
(thousands)	$	$	$	$	$	$
Participating policyholders	327,560	303,520	277,878	249,221	231,000	211,694
Shareholders	169,175	136,554	118,586	106,055	83,167	52,835
Total	496,735	440,074	396,464	355,276	314,167	264,529

The measurement of the financial strength of a life insurer is very complex due to the varying nature of products and risk factors between companies. The Office of the Superintendent of Financial Institutions, Canada (OSFI) utilizes the Minimum Continuing Capital and Surplus Requirements (MCCSR) formula to measure the risks the Company has assumed relative to the capital it has in place to support those risks. Capital is calculated in accordance with OSFI guidelines and is not the same as the capital shown on our Consolidated Balance Sheet. For example, the Company's subordinated debt qualifies as capital under OSFI guidelines. At the end of 2006, the ratio is 303%, up 16% over 2005. Opportunities to strategically deploy excess capital are being explored.



D. Capital and Risk Management

D.2 Risk Management

The Company continues to foster an Enterprise Risk Management culture. This ongoing initiative involves integrating the management of all risks faced by the organization to account for the fact that the risk exposures faced by the Company are interrelated. In doing so, the Company is better able to assess its current and desired risk profile and ultimately to incorporate this information into all decision-making and strategic planning.

The Company also continues to abide by established comprehensive risk management policies and practices covering all aspects of operations. The Board of Directors has approved these policies and is responsible for approving material changes to the policies. Management is responsible for ensuring the proper implementation of the policies. The Board receives confirmation that the risks are being appropriately managed through regular reporting as well as annual compliance reporting and by reviews conducted by the internal audit department.

D.2a Interest Rate Risk

Interest rate risk is the risk that the value of a financial instrument will fluctuate due to changes in market interest rates and that such movements will have an adverse effect on the financial condition of the enterprise. Due to liability characteristics such as long liability cash flows and complex product features including policyholder options and guaranteed interest rates, the Company is inherently exposed to interest rate risk.

Managing interest rate risk involves prudent management of both assets and liabilities in order to control the impact of changes in interest rates on the Company's financial results. Therefore, interest rate risk is managed through the Company's Asset Liability Management (ALM) function. ALM is the ongoing process of formulating, implementing and monitoring strategies in respect of assets and liabilities to attain our financial objectives for a given set of risk tolerances and constraints. ALM requires the management of a number of interrelated risks, including interest rate risk, credit risk, market risk and liquidity risk.

The ALM policy is established by the ALM Committee and reviewed by the Board of Directors at least annually. The ALM Committee monitors exposures in view of market developments and the Company's financial position, sets guidance for interest rate risk management decisions and monitors liquidity.

The assets and liabilities of the Company are segmented based on the nature of the products and the relative level of exposure to interest rate risk. The investment objective and interest rate risk limits for each portfolio of assets are intended to match the liability structure and specific needs of the products in that segment. The interest rate risk limits are established by the ALM Committee and specified in the Company's ALM Policy.

The Company's exposure to interest rate risk is quantified by calculating price sensitivity statistics, such as modified duration, effective duration and dollar duration, and also by performing scenario testing and cash flow analysis. Measurement of interest rate risk includes the effect of any hedging positions held by the Company. The ALM results are reported quarterly to the ALM Committee and to the Board of Directors.

In addition to managing interest rate risk through ALM, appropriate actuarial liability provisions are included to account for the current exposure. Furthermore, in order to test the potential effect of adverse movements in interest rates on the Company's capital position, two of the adverse scenarios tested as part of the Dynamic Capital Adequacy Testing (DCAT) process included further decreases in current yields. In both cases, the Company maintained adequate levels of capital over the five-year projection period. The DCAT results are presented annually to the senior management group and the Board of Directors.

D.2b Credit Risk

Credit risk is the risk of financial loss resulting from the failure of a debtor to honour its obligations to the Company. The goal of the Investment Policy is to maintain a fixed income portfolio of high overall quality and to accomplish this, the policy includes standards relating to minimum quality for each category of assets, as well as limits on the concentration of credit risk by borrower and geographic region. Various limits have also been set on the percentages of bonds, mortgages and other loans by type of property or by industry group. The Company also has an overall corporate concentration limit on its exposure to any single group of related corporate entities, requiring that this be less than 25% of Company surplus. The credit quality of the asset portfolio is reported to the Board of Directors on a quarterly basis.

Included in the actuarial liability is an asset default provision that reflects the quality of the assets. The total provision is monitored quarterly to determine if it has significantly increased relative to the level of actuarial liability. The DCAT analysis also provides another vehicle to measure the potential financial impact of the Company's credit risk exposure as a recession/deflation scenario was tested that included an assumption of increased asset defaults. The Company maintained adequate levels of capital over the five-year projection period under this scenario.

D. Capital and Risk Management (continued)

D.2c Equity Market Risk

Market risk arises whenever financial results are adversely affected by changes in the capital markets, particularly the equity markets. The most extreme exposure to market risk occurs when investment guarantees are offered, as is the case with segregated funds. Other segments currently facing equity risk exposure are Individual Life Par, Universal Life and Surplus.

A stochastic model was developed in-house to determine the actuarial liability required to cover the segregated fund guarantees. In determining the Individual Life Par and Universal Life actuarial liabilities, conservative equity assumptions are required by the standards in order to account for the unknown future volatility of returns. The Surplus segment is managed on a total return basis and the performance of the assets, including the equities, is monitored by members of the senior management team that comprise the Surplus Committee.

D.2d Liquidity Risk

Liquidity risk refers to the ability of the Company to raise funds to meet financial commitments as they fall due. Liquidity risk will vary by line of business based on contractual rights to make cash withdrawals and other distinct product features.

The desired liquidity level of the Company is determined by taking into consideration factors such as the cost of liquidity, competitiveness and corporate solidity. The Company's asset, liability and cash management processes are prudently managed to ensure that cash inflows have an appropriate relationship to the size of approaching cash outflows.

Although it is unlikely that all demand liabilities will be withdrawn simultaneously, the Company maintains a high level of liquid assets to ensure that cash demands are readily met. The liquid assets of the Company have generally exceeded the liquidity needs of the liabilities by a comfortable margin. If additional liquidity is required, it is also available through bank lines of credit.

The primary methodology for managing liquidity on a strategic basis is the calculation of liquidity ratios over different time horizons and under several scenarios. This analysis is used to identify both the overall level of risk and the types of events that increase liquidity risk.

Liquidity risk is measured and monitored at least quarterly. The liquidity ratios that are produced as a result of the forecasts are summarized and analyzed for each time horizon and scenario. Compliance with the liquidity risk policy is reported quarterly to the ALM Committee and the Board of Directors. Furthermore, a liquidity panic scenario is included in the annual DCAT analysis. Over the five-year projection period, the Company's capital position is not threatened under this scenario.

D.2e Foreign Exchange Risk

Foreign exchange risk is the risk of loss due to unfavourable movements in foreign exchange rates relative to the Canadian dollar.

Foreign exchange risk arises from currency mismatches between assets and liabilities. The Company's policy is not to assume any significant foreign exchange risk in the asset segments that are backing actuarial liabilities. While the Company's business originates in Canada only, there is limited foreign exchange risk exposure in relation to out-of-country medical coverage sold through travel insurance providers and through foreign currency denominated liabilities in the Company's universal life products. Any foreign exchange risk arising from these segments is minimized through the ALM process.

The Company's surplus account is permitted to hold foreign currency assets. This normally involves holding a portion of the equity investments in foreign common stocks for diversification purposes to lessen risk and to enhance return by having exposure to industries, companies and technology not available in the Canadian stock market. This exposure is limited to a maximum of 50% of surplus assets by book value.

D.2f Derivatives Risk Management

Derivatives are financial contracts with values derived from an underlying asset or index such as interest rates, exchange rates, equities and insurance contracts. The Board of Directors has approved a comprehensive derivatives policy that permits the Company to be a limited end-user of derivative instruments while prohibiting use for speculative purposes. The primary permitted use of derivatives is to hedge market risk in the investment portfolios but they cannot be used to create any exposures not otherwise allowed by investment policy. Forward contracts were placed in 2006 to decrease the exposure to currency fluctuations in the foreign equity investments backing the Company's surplus. The use of derivatives is strictly governed by detailed restrictions involving independent review, credit risk limits and operational controls.

D. Capital and Risk Management (continued)

D.2g Insurance Risks

Insurance and annuity products offered by the Company create exposures to the risk of adverse experience in components including mortality, morbidity, persistency and expenses. These risks are managed through the product design, pricing, underwriting and claims management processes. In addition, experience studies and Sources of Earnings analysis are used to provide input into future new product development and pricing as well as current actuarial liability assumptions. Through the experience studies, differences between the actual and expected results are investigated while the Sources of Earnings analysis breaks down the income statement by the various components that contribute to income. Finally, provisions for adverse deviations in the actuarial liabilities serve to offset the risk that the experience will deteriorate (see Section D.2i for more details).

D.2g(i) Product Design and Pricing

Products are designed and priced with the following goals in mind:

- Provide real value to the customer
- Meet the Company's strategic plans
- Assume prudent levels of mortality and morbidity risk
- Assume manageable investment, expense and persistency risks
- Support the requirements of the distribution systems

To achieve these goals, procedures have been developed to document and implement effective processes for introducing new products or material changes to existing products, as well as to document and implement monitoring of existing products.

For all lines of business, senior management must approve all initial product pricing and design, as well as significant modifications to existing products. Prior to product launch, a business and economic assessment is required covering market and competitive analyses, business requirements, marketing plans and a financial assessment. In addition, each product proposal must document the management practices for dealing with all risks, options and features inherent in the product. Included in this risk assessment are sensitivity analyses, risk/return trade-off studies and capital requirements.

Marketing and sales materials are reviewed by the product development and legal departments to ensure all requirements are met and the product features are clearly conveyed. Agents are provided with Company-approved materials.

D. Capital and Risk Management (continued)

D.2g(ii) Underwriting

The Company's life and health underwriting objectives are premised on the underlying notion that all proposed insureds will be underwritten equitably and fairly and in accordance with the terms of the product(s) applied for. The goals are to:

- Ensure that underwriting activity is consistent for all clients
- Provide competitive and fair prices by maintaining correct risk classification
- Price according to the risks represented by the client
- Maintain a presence for the long term in our markets

For individual insurance products, comprehensive and detailed risk selection information is collected regarding each proposed insured's mortality and/or morbidity. The information collected may include age, sex, amount applied for, smoker status, family history, medical history, current health, occupation, avocation, driving record, travel, foreign residence, citizenship, finances, lifestyle and participation in certain hazardous activities.

The underwriting guidelines clearly set out the risk selection information required for each mortality factor or combination of factors. The detailed information provided by the proposed insured may be supplemented with information from third parties, including the proposed insured's personal physician, clinics, hospitals, information from paramedical or medical examinations, motor vehicle reports and personal, financial and lifestyle information from inspection report services.

For group insurance products, underwriting is related to the pricing and design of the product. Comprehensive underwriting manuals are maintained which detail the practices and procedures to be followed in the determination of the product design and price for each group to be insured. The decision to accept any risk is determined before quoting the product and is based upon an initial assessment of the group's characteristics. Careful risk screening is critical to avoid the possibility of anti-selection. The group underwriting manual maintains a regularly updated listing of insurable groups, classified into a number of risk categories. High-risk groups are separately identified and must meet certain established criteria before a quote is offered.

For travel insurance products, medical underwriting is required for products with significant morbidity risk exposure. When medical underwriting is required, comprehensive and detailed risk selection information is collected. The information required varies by product and can address various factors impacting each proposed insured's morbidity including age, sex, smoker status, amount of benefit, family history, medical history, current health, travel, foreign residence, citizenship and lifestyle. The underwriting guidelines for each product clearly set out the risk selection information required for each morbidity factor or combination of factors for that particular product.

D.2g(iii) Claims Management

The Company's life, disability and health claims management objectives are to adjudicate claims fairly, in accordance with the specific contractual terms, and to do so objectively, professionally and on a timely basis.

To ensure complete and consistent claims adjudication, comprehensive manuals have been compiled which set out the types of information required to process a claim, the forms that must be completed or collected and the procedures that must be followed before a claim can be paid. Claims adjudication is not complete until all requirements set out in the Claims Procedures Manuals have been met. These manuals are revised when necessary to accommodate new product introductions and claims procedure enhancements.

D. Capital and Risk Management (continued)

D.2h Reinsurance Risk

Reinsurance is utilized to limit the Company's underwriting and claims exposures in a given market, or in respect to a particular product. The Company has a "per life" retention limit, over which any insurance is ceded to a particular reinsurer. For the purposes of automatic reinsurance, the Company utilizes several reinsurers. Where possible, the Company deals only with the largest reinsurers which have a rating of A+ or better from an acknowledged rating agency such as A.M. Best, Standard & Poor's, Moody's or Duff & Phelps. The reinsurer used depends upon the product. In certain situations, the Company may use other reinsurers, and where other reinsurers are used, the decision must be approved by the Company's senior management group.

For group coverage, the Company has several reinsurance programs in place to allow it to share the underwriting risks. Reinsurance levels vary depending on the type of coverage and reinsurance levels are periodically reassessed to ensure they remain economically feasible.

The reinsurer automatically accepts business underwritten by the Company, provided the reinsurance falls within the limits set out in the applicable reinsurance treaty and the policy is written in accordance with the product and underwriting guidelines adopted and approved by the Company and the reinsurer. Coverages that deviate from standard underwriting guidelines are assessed on an individual basis.

The Company also maintains catastrophe reinsurance programs, which provide protection in the event that multiple insured lives perish in a common accident or suffer travel insurance losses from a common occurrence. Full terrorism coverage has been put in place for the accidental death catastrophe coverage. The business is ceded to several reinsurers.

D.2i Actuarial Liability Risk

In the computation of actuarial liabilities, "expected" assumptions covering the lifetime of the policies have been made for many variables, including mortality, morbidity, reinvestment rates, rates of policy termination, operating expenses, inflation, policyholder dividends and taxes. Assumptions are reviewed annually based on studies of the major experience factors. The change in actuarial liabilities resulting from assumption revisions is recognized immediately in income.

To recognize the uncertainty in establishing the expected assumptions, to allow for possible deterioration in experience and to provide greater comfort that actuarial liabilities are adequate to pay future benefits, a margin for adverse deviation is included in each assumption. The Canadian Institute of Actuaries prescribes a standard range of margins and in most cases the Company maintains margins at the conservative end of the standard range.

Note 6 of the audited financial statements provides a more detailed explanation of the actuarial liabilities and a complete description of the nature of the liabilities, the most recent assumption changes and their impact on earnings.

D.3 Significant Risk Exposures Identified

In addition to established ongoing risk management practices, initiatives have recently been taken to address specific factors that have been identified as creating significant risk exposures for the Company.

D.3a Low Interest Rate Environment

As part of the ALM process, the impact of the current low interest rate environment has been mitigated for liability segments that are well matched with respect to durations and/or cash flows. For some liability segments, neither of these approaches is possible and as a result there is a high degree of exposure to income fluctuations. Under the current low interest rate environment, segments with very long duration liabilities such as Individual Life Par and Universal Life could be particularly susceptible to significant income losses.

To address this mismatch, several asset strategies including lengthening the bond portfolio, introducing equities in the asset mix and entering into derivative contracts have been tested and, where warranted, implemented. In addition, alternate methods are being investigated as means to measure and manage the interest rate risk exposure in these segments.

D.3b Pandemic Risk

Given the current threat of a pandemic, the Company continues to advance its Pandemic Plan. A six-tier approach is underway, focusing on the areas of employee protection, Human Resource policies, business-related issues, business continuity, communication and liaising with the community. The scope of the project is presently being defined by a team of representatives from several areas within the Company.

E. Outlook

Growth, profitability and financial strength continue to be the cornerstones of Co-operators Life's plans for the future. A competitive cost structure, appropriate risk management and superior service strategies are being combined to generate profitable growth and ensure continued confidence in the Company.

The importance of the co-operative sector, including our member-owners, to the ongoing success of the Company is also clearly recognized. Our goal is to be the preferred provider of financial security products and services to member and non-member co-operatives.

Profitability on individual life products remains sensitive to movements in long-term interest rates. This risk is actively managed and ALM strategies will be implemented as appropriate.

In 2007, insurance premium written is planned to increase by 6%. While we will have to work hard to achieve our goals, we expect all business segments to report earnings substantially consistent with product pricing targets.

Wealth management funds under administration are expected to continue to increase in 2007 both from continued market value growth and contributions to new and existing plans.

Policy-related and general expenses will rise in conjunction with the increase in premiums. Initiatives undertaken in recent years will be closely monitored to ensure the expected improvement in key expense ratios is realized. Opportunities to further leverage our investment in systems and human resources will be sought.

We expect to experience a slight drop in return on equity in 2007. The implementation of fair value accounting rules on January 1, 2007 will result in an immediate increase in equity when assets and liabilities are recorded on a fair value basis.

The Company intends to seek opportunities to strategically deploy excess capital during the coming year. Opportunities to serve the co-operative and Quebec markets are of particular interest.

Readers of this section, Management's Discussion and Analysis, should review the entire annual report for additional commentary and information.

Financial Reporting Responsibilities

Management

Management is responsible for the preparation of the accompanying consolidated financial statements and the accuracy, integrity and objectivity of the information contained therein. These consolidated statements have been prepared in accordance with generally accepted accounting principles and policies prescribed or permitted by the Office of the Superintendent of Financial Institutions (OSFI). The consolidated financial statements necessarily include some amounts that are based on management's best estimates and the opinion of the appointed actuary.

To assist management in the discharge of these responsibilities, the Company maintains a system of internal controls designed to provide reasonable assurance that its assets are safeguarded; that only valid and authorized transactions are executed; and that accurate, timely and comprehensive financial information is prepared.

Audit Committee of the Board of Directors

The Audit Committee of the Board of Directors, consisting entirely of non-executive directors, is responsible for reviewing the accounting principles employed by the Company and reviewing the Company's annual consolidated financial statements prior to their submission to the Board of Directors for final approval. The Audit Committee meets periodically with the internal and external auditors, the appointed actuary and management to review their work and to ensure that respective responsibilities are properly discharged. The Audit Committee also reviews and monitors weaknesses in the Company's system of internal controls as reported by the auditors.

Appointed Actuary

The appointed actuary is appointed by the Board of Directors pursuant to the *Insurance Companies Act*. Among the appointed actuary's responsibilities is the requirement to carry out an annual valuation of the Company's policy liabilities in accordance with accepted actuarial practice and regulatory requirements for the purpose of reporting to shareholders, policyholders and the Superintendent of Financial Institutions Canada. In performing this valuation, the appointed actuary makes assumptions as to future rates of interest, asset default, mortality, morbidity, policy termination, expenses and other contingencies, taking into account the circumstances of the Company and the policies in force. The appointed actuary makes use of information provided by management and considers the work of the auditors in verifying the underlying data used in the valuation. The appointed actuary's report to the shareholders and policyholders follows.

External Auditors

The Company's external auditors, Deloitte & Touche LLP, Chartered Accountants, conduct an independent examination of the financial statements and meet separately with both management and the Audit Committee to discuss the results of their examination.

Dan Thornton (signed)
Chief Operating Officer

Mary Turtle (signed)
Vice-President, Finance

Bryan G. Sigurdson (signed)
Vice-President and Chief Actuary

Auditors' Report

To the Shareholders and Policyholders of
Co-operators Life Insurance Company:

We have audited the consolidated general fund balance sheet of Co-operators Life Insurance Company and the separate balance sheet of its segregated funds as at December 31, 2006 and the consolidated statements of operations, retained earnings, participating account, cash flow and the statement of changes in segregated funds net assets for the year then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company and its segregated funds as at December 31, 2006 and the results of its operations, its cash flows and the changes in the net assets of its segregated funds for the year then ended in accordance with Canadian generally accepted accounting principles.

Deloitte & Touche LLP (signed)

Chartered Accountants
Regina, Saskatchewan
February 15, 2007

Report Of The Appointed Actuary

To the Shareholders and Policyholders of
Co-operators Life Insurance Company:

I have valued the policy liabilities of the Company for its consolidated balance sheet at December 31, 2006 and their change in the statement of operations for the year then ended in accordance with accepted actuarial practice, including selection of appropriate assumptions and methods.

In my opinion, the amount of policy liabilities makes appropriate provision for all policyholder obligations and the consolidated financial statements fairly present the results of the valuation.

Regina, Saskatchewan
February 15, 2007

Bryan G. Sigurdson (signed)
Fellow, Canadian Institute of Actuaries

CO-OPERATORS LIFE INSURANCE COMPANY

CONSOLIDATED GENERAL FUND BALANCE SHEET

DECEMBER 31, 2006
(Thousands)

	2006	2005
ASSETS		
Cash and short-term investments	$ 118,099	$ 115,880
Bonds	1,158,695	1,082,841
Stocks	356,599	317,776
Mortgages	583,770	572,793
Real estate	19,575	20,826
Policy loans	47,587	45,937
Investment income due and accrued	19,378	17,777
Invested assets (Note 3)	2,303,703	2,173,830
Premiums due	26,855	26,323
Amounts on deposit with reinsurers	88,127	94,199
Other assets (Note 4)	41,763	28,780
	$ 2,460,448	$ 2,323,132
LIABILITIES AND EQUITY		
Actuarial liabilities (Note 6)	$ 1,492,173	$ 1,419,752
Policyholders' funds on deposit	116,904	114,922
Claims in course of settlement	17,985	16,482
Provision for unreported claims	24,993	23,803
Provision for policyholder dividends and experience rating refunds	25,809	24,464
Reinsurers' funds on deposit	24,855	22,283
Policy liabilities	1,702,719	1,621,706
Deferred net realized gains (Note 11)	84,816	71,512
Other liabilities (Note 7)	51,178	64,840
	1,838,713	1,758,058
Subordinated debt (Note 12)	125,000	125,000
Equity		
Participating policyholder account	327,560	303,520
Shareholders' equity		
Share capital (Note 14)	8,001	8,001
Contributed surplus (Note 18)	4,110	-
Retained earnings	157,064	128,553
	169,175	136,554
	496,735	440,074
	$ 2,460,448	$ 2,323,132

Approved by the Board of Directors:

(signed), Director

(signed), Director

(signed), Chief Executive Officer

CO-OPERATORS LIFE INSURANCE COMPANY

CONSOLIDATED STATEMENT OF OPERATIONS

YEAR ENDED DECEMBER 31, 2006
(Thousands)

	2006	2005
REVENUE		
Premium written	$ 686,939	$ 608,807
Reinsurance ceded (Note 8)	(45,974)	(40,250)
Investment income, net of expense	151,043	144,656
Fees and other income	14,297	9,924
	806,305	723,137
EXPENSES		
Increase in actuarial liabilities (Note 6)	67,489	28,022
Life and health claims	269,371	263,004
Cash value of surrendered policies	66,577	57,623
Policyholder dividends & experience rating refunds	25,626	24,092
Annuity payments	34,076	33,834
Policyholder interest	4,886	5,245
Premium and other taxes	12,132	11,678
Marketing	87,126	82,745
General	99,384	91,120
Reinsurance allowances	59,069	56,154
Interest expense (Note 12)	6,557	2,992
	732,293	656,509
OPERATING INCOME BEFORE INCOME TAXES	74,012	66,628
Income taxes (Note 15)	21,002	22,648
NET OPERATING INCOME	53,010	43,980
ALLOCATIONS TO OTHER INTERESTS		
Undistributed participating policyholder income (Note 16)	22,977	24,382
NET INCOME TO SHAREHOLDERS (Note 17)	$ 30,033	$ 19,598

CONSOLIDATED STATEMENT OF RETAINED EARNINGS

YEAR ENDED DECEMBER 31, 2006
(Thousands)

	2006	2005
BALANCE, BEGINNING OF YEAR	$ 128,553	$ 110,585
Operating income	30,033	19,598
Appropriation (Note 16)	(1,063)	(1,260)
Dividends to shareholders	(459)	(370)
BALANCE, END OF YEAR	157,064	$ 128,553

CO-OPERATORS LIFE INSURANCE COMPANY

CONSOLIDATED STATEMENT OF PARTICIPATING ACCOUNT

YEAR ENDED DECEMBER 31, 2006
(Thousands)

	2006	2005
BALANCE, BEGINNING OF YEAR	$ 303,520	$ 277,878
Operating income	22,977	24,382
Appropriation (Note 16)	1,063	1,260
BALANCE, END OF YEAR	$ 327,560	$ 303,520

CO-OPERATORS LIFE INSURANCE COMPANY

CONSOLIDATED STATEMENT OF CASH FLOW

YEAR ENDED DECEMBER 31, 2006
(Thousands)

	2006	2005
OPERATING ACTIVITIES		
Net operating income	$ 53,010	$ 43,980
Adjustments		
Increase in actuarial liabilities (Note 6)	67,489	28,022
Provision for policyholder dividends	1,345	4,143
Investment writedowns and provisions	(4,685)	(9,304)
Investment amortizations	(35,335)	(29,984)
Reinsurers' funds on deposit	2,572	1,059
Other assets and liabilities	(9,071)	15,187
	75,325	53,103
INVESTING ACTIVITIES (Note 19)		
Bonds	(55,265)	(42,196)
Stocks	(9,446)	(89,905)
Mortgages	(9,398)	(38,418)
Real estate	3,112	(759)
Policy loans	(1,650)	(2,076)
	(72,647)	(173,354)
FINANCING ACTIVITIES		
Issuance of subordinated debt (Note 12)	-	119,237
Dividends paid to shareholders	(459)	(370)
	(459)	118,867
CHANGE IN CASH AND SHORT-TERM INVESTMENTS	2,219	(1,384)
CASH AND SHORT-TERM INVESTMENTS, BEGINNING OF YEAR	115,880	117,264
CASH AND SHORT-TERM INVESTMENTS , END OF YEAR (Note 19)	$ 118,099	$ 115,880

CO-OPERATORS LIFE INSURANCE COMPANY

SEGREGATED FUNDS BALANCE SHEET

DECEMBER 31, 2006
(Thousands)

	2006	2005
ASSETS		
Cash	$ 54,862	$ 55,384
Bonds	447,719	397,183
Stocks	773,457	650,813
Investment income due and accrued	5,562	5,521
Mutual fund units	89,881	44,916
	$ 1,371,481	$ 1,153,817
LIABILITIES		
Taxes, licenses and fees due and accrued	$ 324	$ 299
Funds held for the benefit of policyholders	1,371,157	1,153,518
	$ 1,371,481	$ 1,153,817

STATEMENT OF CHANGES IN SEGREGATED FUNDS NET ASSETS

YEAR ENDED DECEMBER 31, 2006
(Thousands)

	2006	2005
SEGREGATED FUNDS NET ASSETS, BEGINNING OF YEAR	$ 1,153,518	$ 972,659
Additions to segregated funds		
Amounts received from unitholders	136,381	100,061
Interest	21,683	19,112
Dividends	12,259	10,307
Other income	16,158	8,208
Net realized gains	78,377	45,743
Market value appreciation	32,798	58,667
	297,656	242,098
Deductions from segregated funds		
Amounts withdrawn by unitholders	68,843	53,004
Operating expenses	11,174	8,235
	80,017	61,239
SEGREGATED FUNDS NET ASSETS, END OF YEAR	$ 1,371,157	$ 1,153,518

CO-OPERATORS LIFE INSURANCE COMPANY

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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(Thousands)

1. Nature of Business

The Company is licensed to write life, annuity and health insurance in all provinces and territories in Canada. The Company is subject to the Insurance Companies Act and is regulated by the Office of the Superintendent of Financial Institutions (OSFI). Under regulations and guidelines prescribed by OSFI, the Company is required to maintain a prescribed level of capital, which is dependent on the type and amount of insurance policies in force and the nature of the Company's assets. The capital position of the Company is well in excess of that prescribed by OSFI.

The Company operates in both the individual and group markets and is also involved in a joint marketing arrangement with another federally licensed Canadian life insurance company to sell creditor and employee benefit insurance products to and through credit unions in Canada. Products sold to individuals constitute 31% of premium written, products sold through group markets constitute 48% of premium written, with the other 21% of premium written sold through the credit union market. The majority of the individual products are distributed through the exclusive sales force of related party, Co-operators General Insurance Company, while group products are marketed primarily through independent brokers. Travel insurance products are distributed through travel agents, independent brokers and direct to consumer methods.

2. Significant Accounting Practices

These consolidated financial statements have been prepared in accordance with subsection 331(4) of the Insurance Companies Act which states that, except as otherwise specified by the Office of the Superintendent of Financial Institutions (OSFI), the consolidated financial statements are to be prepared in accordance with Canadian generally accepted accounting principles. The significant accounting policies used in the preparation of these consolidated financial statements, including the accounting requirements of OSFI, are summarized below.

<u>Basis of Presentation</u>

These consolidated financial statements include the accounts of the Company and of its subsidiaries TIC Travel Insurance Coordinators Ltd. and Trent Health Insurance Company. The statements include the accounts of all co-ownerships to the extent of the Company's proportionate interest in their respective assets, liabilities, revenue, expenses and cash flows.

<u>Cash and Short-term Investments</u>

Cash and short-term investments consist of cash on hand and balances with banks, and investments in money market instruments of one-year term or less.

<u>Bonds</u>

Bonds are carried at amortized cost less impairment provisions and amounts written off for other than temporary declines in value. Gains or losses on the sale of bonds are considered to be an adjustment of future portfolio yield and are deferred on the consolidated balance sheet and amortized to income on a straight-line basis over the remaining period to maturity, to a maximum of 20 years.

<u>Stocks</u>

Investments in stocks are carried at moving average market value, where the carrying value is adjusted towards market value at 5% per quarter less amounts written off for other than temporary declines in value. Net realized gains and losses on the disposal of stocks are deferred and amortized to income at 5% per quarter on a declining balance basis.

2. **Significant Accounting Practices (continued)**

Mortgages

Mortgages are carried at amortized cost less principal repayments, general provisions, impairment provisions, and amounts written off for other than temporary declines in value. Mortgage prepayment penalties are recognized in income when received.

Policy Loans

Policy loans are carried at their unpaid balance, which is not in excess of the cash surrender value of the policies on which the respective loans were made.

Equipment

Equipment is carried at cost less accumulated depreciation. Equipment is depreciated using straight-line depreciation for periods of three or ten years.

Real Estate

Real estate, not including own use and development property, is carried at moving average market value, where the carrying value is adjusted towards market value at 3% per quarter less amounts written off for other than temporary declines in value. Market values on each property are established, on a rotating basis, every three years by qualified appraisers.

Net realized gains and losses are amortized on a declining balance basis at 3% per quarter. Own use properties are carried at cost less accumulated depreciation, calculated using the declining balance method at 5% per annum.

Goodwill

Goodwill is carried at the lower of cost or fair market value. Annually, the carrying value of the Goodwill is tested against fair market values of the entities which generated the Goodwill. No amortization is taken.

Actuarial Liabilities

Actuarial liabilities have been determined using the Canadian Asset Liability Method (CALM). Actuarial liabilities represent the amounts which, together with future premiums and investment income, will be sufficient to pay future benefits, dividends and expenses on all policies in force. The liabilities are calculated using estimates of future reinvestment rates, asset default, mortality, morbidity, policy termination and expense, and include reasonable provisions for adverse deviations from those estimates. As the probability of deviation from estimates declines, these provisions for adverse deviations will be included in future income to the extent not required to cover adverse experience.

Employee Future Benefits

Employee future benefits include pensions, medical and dental benefits for pensioners and survivors and certain benefits to other than retirees. The primary pension plan is a defined contribution plan where the Company obligation is fulfilled when contributions are made as earned by the employees. There is also a supplemental executive retirement plan (SERP) which provides a minimum pension benefit to those eligible.

2. **Significant Accounting Practices (continued)**

The other than pension benefits and the SERP are defined benefit contracts and are accounted for on an accrual basis. The expected costs of employee future benefits are expensed during the years that the employees render services and an accrued post-employment benefit obligation is recognized. The obligation is determined by application of the terms of the plans together with relevant actuarial assumptions. There are no employee contributions to other than pension benefits or the SERP. The plans are not funded. A large component of the liability for the SERP is in respect of benefits being granted for past service. The past service liability is being amortized over the average future service to expected retirement age on a straight-line basis. In addition, interest accrual on the liability forms part of the expense.

Experience gains and losses, past service costs and transition costs have been deferred and amortized. These deferred costs are amortized over the average future service to expected retirement age on a straight-line basis.

Segregated Funds

Certain contracts allow policyholders to invest in segregated funds managed by the Company for the benefit of policyholders. Income earned on these funds and any related capital gains or losses accrue to the benefit of the segregated fund policyholders. Investments held in segregated funds are carried at market value.

Income Taxes

Income taxes are accounted for using the liability method. Current income taxes are recognized for the estimated income taxes payable or recoverable for the current year. Future income taxes are recognized for accumulated deductible temporary differences between the carrying value of assets and liabilities and their respective tax bases. Future income taxes also include the future benefit of unused income tax loss carry forwards and income tax deductions, when it is more likely than not that the income tax benefit will be realized.

Revenue Recognition

Premium for all types of insurance and annuity contracts is recognized as revenue when due.

Investment income includes dividend income, which is recorded on the ex-dividend date, and interest income which is recognized pro rata over the term of the instrument, net of the amortization of the premium or discount, in order to provide a constant yield to maturity. Realized and unrealized gains and losses on stocks and real estate are recognized in accordance with the accounting policies previously noted.

Fee and other income primarily includes fees earned on administrative services only (ASO) group health contracts and fees earned from the management of the Company's segregated fund contracts.

Foreign Currency Translation

The Company translates all assets and liabilities into Canadian dollars at year-end rates. Revenue and expenses, including amortized gains and losses on foreign investments, are translated at the prevailing rate on the date of the transaction. Exchange gains and losses are recognized in the statement of operations.

2. Significant Accounting Practices (continued)

Use of Estimates

The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the year. Significant estimates include the valuation of investments (Note 3), actuarial liabilities (Note 6), income taxes (Note 15), employee future benefits (Note 13) and contingent liabilities (Note 20). Actual results could differ from these estimates and changes in estimates are recorded in the accounting period in which they are determined.

Debt Issuance Costs

Debt issuance costs are amortized over the term of the related debt.

CO-OPERATORS LIFE INSURANCE COMPANY

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(Thousands)

3. **Investments**

The Company utilizes the prudent person approach to asset management as outlined in the Insurance Companies Act. An investment policy is in place and its application is monitored by the Investment Policy Committee of the Board of Directors. Policies limit investments in any entity or group of related entities to a maximum of 20% of the Company's surplus. Limitations are also placed on the quality of investments, particularly relating to investment-grade bonds.

a) The carrying amounts and fair values of investments are as follows:

	2006		2005	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Cash and short-term investments	$ 118,099	$ 118,099	$ 115,880	$ 115,880
Bonds				
Federal	$ 240,191	$ 252,687	$ 219,756	$ 237,453
Provincial	386,761	441,655	332,389	391,151
Municipal	86,105	95,135	81,461	91,885
Corporate A or better	399,281	435,447	405,681	451,438
Below A	40,897	42,228	40,054	41,862
Co-operatives	5,460	5,849	5,500	5,706
General provision	-	-	(2,000)	-
	$1,158,695	$ 1,273,001	$1,082,841	$1,219,495
Stocks				
Canadian common	$ 173,072	$ 214,182	$ 155,646	$ 195,556
Canadian preferred	115,200	116,878	103,667	105,018
U.S. equities	50,591	51,830	45,771	43,587
Foreign equities	17,736	20,697	12,692	12,844
	$ 356,599	$ 403,587	$ 317,776	$ 357,005
Mortgages				
Insured	$ 283,072	$ 303,920	$ 289,992	$ 317,663
Residential	92,221	93,417	85,439	87,599
Commercial	213,477	221,425	203,362	213,104
General provision	(5,000)	-	(6,000)	-
	$ 583,770	$ 618,762	$ 572,793	$ 618,366
Real estate				
Office	$ 11,962	$ 28,375	$ 12,753	$ 16,875
Project development	4,586	9,260	5,173	7,533
Other	3,027	3,527	3,400	3,652
General provision	-	-	(500)	-
	$ 19,575	$ 41,162	$ 20,826	$ 28,060
Policy loans	$ 47,587	$ 47,587	$ 45,937	$ 45,937
Investment income due and accrued	$ 19,378	$ 19,378	$ 17,777	$ 17,777
Total invested assets	$2,303,703	$ 2,521,576	$2,173,830	$2,402,520

(Thousands)

3. **Investments (continued)**

b) Securities Lending

The Company participates in a securities lending program managed by a federally regulated financial institution whereby the Company lends securities it owns to other financial institutions to allow them to meet delivery commitments. The Company receives securities of superior credit quality and value as collateral for securities loaned. At December 31, 2006, securities with an estimated fair value of $200,130 (2005 - $131,390) have been loaned, and securities with an estimated fair value of $215,642 (2005 - $139,694) received as collateral.

c) Impaired Assets and Provisions for Losses

The Company establishes specific investment provisions for losses on any assets which are permanently impaired. Specific investment provisions are netted against the carrying value of the asset. Changes to these specific provisions are reflected in investment income, net of expenses, in the period when the impairment is recognized.

The Company establishes general investment provisions to account for impairments of a non-specific nature in the overall valuation of the portfolio, in the valuation of an asset class, or in the valuation of a segment of an asset class. The Company considers current economic and market conditions in establishing the amount of the general provision, as well as risk factors and the amount and duration of any market value deficiencies in these categories.

General investment provisions are netted against the carrying value of an asset class. Changes to the general investment provision are reflected in investment income, net of expenses, in the period when the impairment is recognized. The amounts identified below reflect the effect on income in the year identified.

	2006		2005	
	Specific	General	Specific	General
Bonds	$ -	$ 2,000	$ 961	$ 1,000
Mortgages				
Mortgage losses	1,185	-	6,843	-
General provision	-	1,000	-	-
Real estate	-	500	-	500
	$ 1,185	$ 3,500	$ 7,804	$ 1,500

After deducting specific provisions, impaired loans totalled $26,869 (2005 - $29,999). The Company maintains general provisions of $0 (2005 - $2,000) against the bond portfolio, $5,000 (2005 - $6,000) against the mortgage portfolio and $0 (2005 - $500) against the real estate portfolio. There are no impaired bonds or foreclosed properties.

In addition to the specific and general provisions, possible future impairments are provided for through the reduction of future asset cash flows assumed in the calculation of the actuarial liabilities. The provision for losses on not yet impaired assets is $53,959 (2005 - $49,735).

(Thousands)

3. **Investments (continued)**

d) Investment income includes the amortization of deferred net gains (losses) realized on disposal of investments and of unrealized gains (losses) on stocks and real estate.

	2006	2005
Bonds	$ 9,008	$ 9,446
Stocks	16,677	11,375
Real estate	546	311
	$ 26,231	$ 21,132

e) Geographic Concentration

	2006	2005
Mortgages		
Atlantic	$ 104,135	$ 98,236
Ontario	197,163	212,908
Prairies	142,880	131,391
British Columbia	125,438	113,535
Other	19,154	22,723
General provision	(5,000)	(6,000)
	$ 583,770	$ 572,793
Real Estate		
Ontario	$ 3,849	$ 3,763
Prairies	8,674	9,553
British Columbia	7,052	8,010
General provision	-	(500)
	$ 19,575	$ 20,826

f) Maturity Profile of Investments

	< 1 Year	1-3 Year	4-5 Year	> 5 Year	No Fixed	2006	2005
Cash and short-term	$118,099	$ -	$ -	$ -	$ -	$ 118,099	$ 115,880
Bonds	44,368	140,087	162,601	811,639	-	1,158,695	1,082,841
Stocks	11,681	7,183	14,877	53,558	269,300	356,599	317,776
Mortgages	81,029	132,451	79,294	268,048	22,948	583,770	572,793
Real estate	-	-	-	-	19,575	19,575	20,826
Policy loans	-	-	-	-	47,587	47,587	45,937
Investment income due and accrued	19,378	-	-	-	-	19,378	17,777
	$274,555	$279,721	$256,772	$1,133,245	$359,410	$2,303,703	$2,173,830
2006	12%	12%	11%	49%	16%	100%	
2005	13%	10%	13%	49%	15%		100%

(Thousands)

4. Other Assets

Other assets are comprised of the following items:

	2006	2005
Accounts receivable	$ 14,450	$ 10,204
Fixed assets	6,204	4,787
Goodwill	9,607	9,607
Prepaid commissions and other	5,301	4,182
Future income taxes (Note 15)	6,201	-
	$ 41,763	$ 28,780

CO-OPERATORS LIFE INSURANCE COMPANY

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(Thousands)

5. Segmented Information

The principal business of the Company is to provide life insurance, health insurance and wealth management products to individuals and employee and association groups. The Company primarily manages its business on a marketing basis between group and individual products.

The Company's reportable segments are strategic business units that offer different products and services. They are managed separately because each business requires different specializations and marketing strategies.

2006

	Individual Insurance	Travel Insurance	Wealth Management	Group Insurance	Credit Union Member	Surplus	Total
Premium written	$132,526	$ 62,739	$ 91,497	$ 286,583	$113,594	$ -	$ 686,939
Reinsurance ceded	(24,678)	(2,260)	-	(18,760)	(276)	-	(45,974)
Investment income, net of expenses	38,219	536	41,726	22,419	5,422	42,721	151,043
Fees and other income	1,418	289	8,791	3,254	-	545	14,297
Expenses	135,338	59,416	135,678	289,700	104,055	8,106	732,293
Income taxes	1,616	871	2,262	1,366	5,295	9,592	21,002
Net operating income	10,531	1,017	4,074	2,430	9,390	25,568	53,010
Transfer to shareholders	465	-	19	335	(8)	900	1,711
Transfer from participating account	-	-	-	-	-	1,711	1,711
Net income	$ 10,066	$ 1,017	$ 4,055	$ 2,095	$ 9,398	$ 26,379	$ 53,010
Assets	$603,093	$ 15,975	$612,942	$ 445,048	$ 94,543	$688,847	$ 2,460,448

2005

	Individual Insurance	Travel Insurance	Wealth Management	Group Insurance	Credit Union Member	Surplus	Total
Premium written	$123,112	$ 62,457	$ 24,582	$ 284,794	$113,862	$ -	$ 608,807
Reinsurance ceded	(20,542)	(2,181)	-	(17,235)	(292)	-	(40,250)
Investment income, net of expenses	36,291	23	43,530	21,311	5,829	37,672	144,656
Fees and other income	120	637	6,529	2,452	-	186	9,924
Expenses	130,052	57,880	68,781	289,886	105,407	4,503	656,509
Income taxes	3,015	2,255	2,121	520	5,065	9,672	22,648
Net operating income	5,914	801	3,739	916	8,927	23,683	43,980
Transfer to shareholders	541	-	229	374	(7)	846	1,983
Transfer from participating account	-	-	-	-	-	1,983	1,983
Net income	$ 5,373	$ 801	$ 3,510	$ 542	$ 8,934	$ 24,820	$ 43,980
Assets	$578,269	$ 16,847	$578,492	$ 414,811	$101,179	$633,534	$ 2,323,132

(Thousands)

6. **Actuarial Liabilities**

a) Composition of Actuarial Liabilities

	2006	2005
Individual insurance	$ 467,004	$ 442,290
Travel insurance	5,984	6,120
Wealth management	576,088	541,715
Group insurance	369,972	349,217
Credit union member	73,125	80,410
Total	$ 1,492,173	$ 1,419,752

b) Nature of Actuarial Liabilities

Actuarial liabilities represent the amounts which, together with estimated future premiums and investment income, will be sufficient to pay estimated future benefits, dividends and expenses on all policies in force. Actuarial liabilities are determined in accordance with Canadian generally accepted actuarial practices, based on standards established by the Canadian Institute of Actuaries. These standards prescribe the use of the Canadian Asset Liability Method (CALM) to determine actuarial liabilities.

Actuarial liabilities have been adjusted to incorporate the effect on future cash flows attributable to differences between statement and tax actuarial liabilities and asset valuations.

Assumptions used to calculate actuarial liabilities consist of two components - an "expected" or "best estimate" assumption and a margin for adverse deviation.

c) Assumptions

In the computation of actuarial liabilities, "expected" assumptions covering the lifetime of the policies have been made for many variables including mortality, morbidity, reinvestment rates, rates of policy termination, operating expenses, inflation, policyholder dividends and taxes. Assumptions are reviewed annually based on studies of the major experience factors. The change in actuarial liabilities resulting from assumption revisions is recognized in income immediately. The methods for arriving at the most important assumptions are outlined below.

Mortality

The mortality assumption for life insurance is mainly based on Company experience. A decrease of one percentage point in the mortality assumption for individual life insurance would reduce the actuarial liabilities by $2,700 (2005- $3,000).

For annuities, the mortality assumption is derived from industry experience tables. Mortality improvement has been projected in future years for annuitants.

6. **Actuarial Liabilities (continued)**

Morbidity

Morbidity assumptions are made with respect to the rates of claim incidence and termination for accident and sickness business. The key morbidity assumption for the Company is the termination rate for group long-term disability claims. This assumption is mainly based on Company experience studies.

Investment Returns

The Company maintains asset segments backing specific lines of business. Under CALM, projections of future asset and liability cash flows under multiple interest rate scenarios are used to determine the actuarial liability for each segment, along with a reinvestment strategy consistent with the Company's policy for that segment. A reduction is made to the asset cash flows to provide for future credit losses.

Expenses

Policy maintenance expense assumptions are derived from the Company's internal cost studies without any adjustment for productivity gains. An inflation assumption consistent with the investment return is incorporated in the estimate of future expenses.

Policy Termination

Policyholders may allow their policies to terminate by choosing not to continue to pay premiums. Policy termination rates are mainly based on the Company's own experience. The assumptions reflect differences in termination patterns for different types of contracts.

A block of policies is considered to be lapse-supported if an increase in ultimate lapse rates increases profitability. The Company has reflected the emerging trend of lower lapse rates for lapse-supported products.

d) Provision for Adverse Deviation

To recognize the uncertainty in establishing the expected assumptions, to allow for possible deterioration in experience and to provide greater comfort that actuarial liabilities are adequate to pay future benefits, a margin for adverse deviation is included in each assumption. With the passage of time, and resulting reduction in estimation risk, these margins are released into income.

A standard range of margins is prescribed by the Canadian Institute of Actuaries. In most cases the Company maintains margins at the conservative end of the standard range.

CO-OPERATORS LIFE INSURANCE COMPANY

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2006
(Thousands)

6. **Actuarial Liabilities (continued)**

e) Changes in Actuarial Liabilities

Changes in actuarial liabilities during the year were caused by the following business activities and changes in actuarial assumptions:

2006

		Individual Insurance	Travel Insurance	Wealth Management	Group Insurance	Credit Union Member	Total
Actuarial liabilities at the beginning of the year		$ 442,290	$ 6,120	$ 541,715	$ 349,217	$ 80,410	$ 1,419,752
Normal changes	a) New business	(33,897)	5,984	74,984	93,910	25,119	166,100
	b) In-force	50,290	(6,120)	(45,809)	(75,046)	(26,990)	(103,675)
Changes in assumptions		8,321	-	1,761	396	(5,414)	5,064
Related party transactions (Note 18)		-	-	3,437	1,495	-	4,932
Actuarial liabilities at the end of the year		$ 467,004	$ 5,984	$ 576,088	$ 369,972	$ 73,125	$ 1,492,173

2005

		Individual Insurance	Travel Insurance	Wealth Management	Group Insurance	Credit Union Member	Total
Actuarial liabilities at the beginning of the year		$ 416,401	$ 5,913	$ 568,168	$ 319,539	$ 81,709	$ 1,391,730
Normal changes	a) New business	(26,076)	6,120	3,650	91,575	29,310	104,579
	b) In-force	74,295	(5,913)	(31,974)	(63,487)	(29,872)	(56,951)
Changes in assumptions		(22,330)	-	1,871	1,590	(737)	(19,606)
Related party transactions		-	-	-	-	-	-
Actuarial liabilities at the end of the year		$ 442,290	$ 6,120	$ 541,715	$ 349,217	$ 80,410	$ 1,419,752

As related party transactions, the increase in liabilities resulting from the 2006 bond sale and repurchase transactions is not reported as an increase in actuarial liabilities in the consolidated statement of operations but as a reduction in contributed surplus.

6. **Actuarial Liabilities (continued)**

The major assumption changes in 2006 are described below. The changes had a material impact on the Company's net income in the current reporting period.

Mortality

Changes were made to expected mortality assumptions for individual life insurance and assumed life insurance. The new assumptions reflect continuing favourable mortality experience for these lines of business. The provision for adverse mortality deviation for group pay-out annuities was increased to recognize a higher level of uncertainty for the mortality improvement risk. These changes produced a reduction of $3,300 in actuarial liabilities.

Morbidity

Revisions to incidence and termination assumptions for assumed group disability business resulted in a decrease in actuarial liabilities of $1,400.

Investment Returns

Actuarial liabilities increased by $11,400 primarily as a result of changes to the CALM interest rate scenarios prescribed by the Canadian Institute of Actuaries. Revisions to the assumed reinvestment strategy for certain lines of business also contributed to the increase.

Expenses

Policy maintenance expense assumptions for individual life insurance were refined based on the most recent expense study. The implementation of a new expense allocation system affected the expense assumptions for assumed business. As a result, actuarial liabilities decreased by $4,000.

Policy Termination

Regular updating of lapse assumptions, based on the latest Company experience studies, produced a net decrease in actuarial liabilities of $100 for all lines of business.

Other

Changes to corporate tax rates, model enhancements, corrections and other miscellaneous items created a net increase in actuarial liabilities of $2,500.

(Thousands)

6. **Actuarial Liabilities (continued)**

f) Assets Supporting Actuarial Liabilities

The Company manages assets, liabilities, capital and surplus within nine major segments depending on the investment objectives which are appropriate for each segment. The distribution of net assets (general provisions are recorded against Surplus until such time as they become specific) within each segment was as follows:

2006

	Individual Life Par	Universal Life	Non-Par	Deferred Annuities	Immediate Annuities Par	Group Pension	Group Life	Accident & Sickness	Surplus	Total
Bonds	$248,984	$147,455	$ 156,828	$ 13,446	$ 40,009	$134,068	$39,351	$148,627	$229,927	$1,158,695
Stocks	3,863	32,467	-	-	-	-	-	(14)	320,283	356,599
Mortgages	123,728	65,406	18,037	52,762	28,270	63,696	45,235	165,152	21,484	583,770
Real estate	-	-	-	-	-	-	-	-	19,575	19,575
Other	58,654	13,870	2,506	10,397	1,733	3,627	40,900	112,544	97,578	341,809
Total assets	435,229	259,198	177,371	76,605	70,012	201,391	125,486	426,309	688,847	2,460,448
Less										
Deferred gains	13,858	544	20,425	33	2,448	4,220	1,130	4,349	37,809	84,816
Miscellaneous liabilities	120,728	1,157	5,424	1,638	2,327	202	38,537	62,408	154,303	386,724
Net assets	$300,643	$257,497	$ 151,522	$ 74,934	$ 65,237	$196,969	$85,819	$359,552	$496,735	$1,988,908

2005

	Individual Life Par	Universal Life	Non-Par	Deferred Annuities	Immediate Annuities Par	Group Pension	Group Life	Accident & Sickness	Surplus	Total
Bonds	$242,561	$120,800	$ 125,955	$ 15,256	$ 43,126	$150,553	$36,117	$137,788	$210,685	$1,082,841
Stocks	2,849	26,615	-	-	-	-	-	(16)	288,328	317,776
Mortgages	122,200	70,892	9,701	51,976	30,499	72,542	44,392	147,577	23,014	572,793
Real estate	-	-	-	-	-	-	-	-	20,826	20,826
Other	51,111	12,613	(4,200)	16,643	2,452	(2,761)	37,722	124,635	90,681	328,896
Total assets	418,721	230,920	131,456	83,875	76,077	220,334	118,231	409,984	633,534	2,323,132
Less										
Deferred gains	14,384	293	20,346	144	3,218	4,768	925	3,317	24,117	71,512
Miscellaneous liabilities	121,096	1,039	2,927	1,210	3,989	(695)	32,606	60,279	169,343	391,794
Net assets	$283,241	$229,588	$ 108,183	$ 82,521	$ 68,870	$216,261	$84,700	$346,388	$440,074	$1,859,826

(Thousands)

7. Other Liabilities

Other liabilities are comprised of the following items:

	2006	2005
Accounts payable and other	$ 38,920	$ 36,655
Employee future benefits (Note 13)	5,319	4,516
Future income taxes (Note 15)	-	7,851
Taxes payable	6,939	15,818
	$ 51,178	$ 64,840

The Company has an authorized line of credit of $8,000 that bears interest at prime less 0.25%. At December 31, 2006 $0 (2005 - $0) of the line of credit was used. Assets with a carrying value of $12,128 (2005-$11,350) have been pledged to back the line of credit.

8. Reinsurance

Reinsurance has been used to reduce risk by limiting the Company's exposure to a single claim and a single event. The Company reinsures all individual insurance amounts in excess of $250 per life, group insurance amounts in excess of $325 per life and all monthly income amounts in excess of two thousand five hundred dollars per month for non-experience rated group long-term disability business. For certain individual life products the Company retains less than $250 per life. Travel insurance claim amounts in excess of $200 per individual are reinsured. In addition, net death claims in excess of $7,000, or travel insurance claims in excess of $500, resulting from a loss occurrence involving multiple lives are reinsured. Although claims in excess of these limits are recoverable from the companies that have assumed the reinsurance coverage, the Company remains primarily liable to the beneficiaries on these policies.

For products sold to and through credit unions, the Company has coinsurance agreements transferring 50% of all risks on this business.

The Company assumes business from related parties, The Sovereign General Insurance Company and Co-operators General Insurance Company.

(Thousands)

8. Reinsurance (continued)

The following summarizes the impact of reinsurance on certain consolidated financial statement line items:

	2006	2005
Premium assumed		
Credit union coinsurance	$ 113,528	$ 113,792
Related parties	468	461
Other	133	204
	$ 114,129	$ 114,457
Premium ceded		
Credit union coinsurance	$ 15,257	$ 13,671
Other	30,717	26,579
	$ 45,974	$ 40,250
Claims assumed		
Credit union coinsurance	$ 36,531	$ 35,640
Related parties	(130)	5
Other	13	186
	$ 36,414	$ 35,831
Claims ceded		
Credit union coinsurance	$ 10,784	$ 9,668
Other	17,126	17,122
	$ 27,910	$ 26,790
Actuarial liabilities assumed		
Credit union coinsurance	$ 73,147	$ 80,421
	$ 73,147	$ 80,421
Actuarial liabilities ceded		
Credit union coinsurance	$ 20,322	$ 18,142
Other	186,163	161,683
	$ 206,485	$ 179,825

9. Interest Rate Risk

The assets and liabilities of the Company are segmented based on the nature of the products and the relative level of exposure to interest rate risk. Interest rate risk is the potential for financial loss arising from changes in interest rates, and arises when a company's asset cash flows do not coincide with the cash flows arising from the liabilities. Asset and liability cash flows are subject to uncertainty for a number of reasons, including the presence of embedded options as well as the inherent variability of both assets and liabilities. One measure of sensitivity to interest rate changes is the change in net present value due to interest rate changes. Net present value equals the present value of asset cash flows less the present value of liability cash flows, determined using the interest rate in effect at the reporting date.

For certain product types, including participating individual insurance and some forms of universal life and pension products, the effect of changes in the interest rate environment is at least partially passed through to the policyholders through changes in the dividend scale or the rate of interest credited. Another source of interest rate risk for participating individual insurance and universal life is the very long duration of the liabilities. Asset strategies are selected to mitigate some of the exposure to interest rate risk.

Annuities, individual non-participating life, group life, and group accident and sickness liabilities involve either contractual or otherwise guaranteed payments to policyholders. Therefore, these liabilities are very sensitive to changes in interest rates. An analysis was performed on these lines of business using data as of November 30, 2006. At that time, group insurance represented approximately 27% of the policy liabilities (excluding coinsured business), while the annuity business, including the individual life business contained in the Non-Par segment, represented approximately 19%. For these products, an immediate increase of 1% in interest rates would result in a decrease in the Company's net present value of $1,009 (2005 - $1,374). Conversely, an immediate decrease of 1% in interest rates would result in an increase in the Company's net present value of $609 (2005 - $2,049). The provisions for adverse deviations included in the actuarial liabilities take account of interest rate movements that are more extreme than this parallel 1% change.

(Thousands)

10. Liquidity Risk

Liquidity risk refers to the ability of the Company to raise funds to meet financial commitments as they fall due. Sources of liquidity include the ongoing net cash flow of the Company and the sale of liquid assets at fair market value. As shown below, the Company maintains a high level of liquid assets to ensure that cash demands can be readily met. Additional liquidity is available through unused bank lines of credit.

Liquid Assets	Fair Value	
	2006	2005
Cash and short-term investments	$ 118,099	$ 115,880
Marketable securities		
Federal and provincial bonds	694,342	628,604
Corporate and municipal bonds	575,806	588,172
Common stocks	264,595	232,634
Preferred stocks	115,771	97,359
	$ 1,768,613	$ 1,662,649

Liquidity risk varies by line of business based on contractual rights to make cash withdrawals and other distinct product features. It is unlikely that all demand liabilities will be withdrawn at the same time. The liquid assets exceed the liquidity needs of the liabilities by a wide margin as illustrated by the following table. Approximately 65% of policy liabilities are not cashable prior to maturity or are subject to market value adjustments.

Policy Liabilities	Book Value		Liquidity Need
	2006	2005	
Policies with no surrender values	$ 756,455	$ 689,068	Nil
Policies with surrender values subject to market value adjustment	356,455	375,482	Low
Policies with no surrender charges	589,809	557,156	High
	$ 1,702,719	$ 1,621,706	

(Thousands)

11. Fair Value

It is the investment policy of the Company that assets be chosen for their cash flow characteristics to match the policy liability cash flows. Consequently, changes in the fair values of assets supporting liabilities will be offset mainly by changes in fair value of those liabilities. Conversely, changes in the fair values of assets backing capital and surplus, less related income taxes, would result in a corresponding change in surplus when realized.

	Assets Supporting Liabilities		Total Assets	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Cash	$ 56,377	$ 56,377	$ 118,099	$ 118,099
Bonds	928,768	1,036,596	1,158,695	1,273,001
Stocks	36,316	37,851	356,599	403,587
Mortgages	562,286	592,263	583,770	618,762
Real estate	-	-	19,575	41,162
Policy loans	47,587	47,587	47,587	47,587
Accrued investment income	14,269	14,269	19,378	19,378
Premiums due	26,855	26,855	26,855	26,855
Amounts on deposit with reinsurers	88,127	88,127	88,127	88,127
Other	11,016	11,016	41,763	41,763
Total	$ 1,771,601	$ 1,910,941	$ 2,460,448	$ 2,678,321
Deferred net realized gains				
Bonds	$ 46,724	$ -	$ 50,830	$ -
Stocks	283	-	30,600	-
Real estate	-	-	3,386	-
Total	$ 47,007	$ -	$ 84,816	$ -

(Thousands)

12. Subordinated Debt

	2006	2005
Subordinated debt - CGL	$ 5,000	$ 5,000
Subordinated debt - CFSL	120,000	120,000
	$ 125,000	$ 125,000

The Company has $5,000 in subordinated debt outstanding with its ultimate parent, The Co-operators Group Limited (CGL). It has interest payable in semi-annual instalments at the one-year Treasury Bill rate plus 110 basis points, set every November. The principal is due December 21, 2094.

On July 21, 2005, the Company issued a $120,000 unsecured subordinated debenture to its immediate parent, Co-operators Financial Services Limited (CFSL), with a maturity date of July 18, 2017. The interest rate from July 21, 2005 to July 18, 2012 is 5.17%, and the rate from July 19, 2012 to July 18, 2017 will be 6.17%. Interest is payable semi-annually on January 18 and July 18. The net proceeds to the Company were $119,237 after deducting expenses of $763.

Both issues of subordinated debt qualify as capital under the rules of the Office of the Superintendent of Financial Institutions. The debt is subordinated in right of payment to all policy liabilities of the Company and all other senior indebtedness of the Company. The Company may call for redemption of either issue at any time subject to the approval of the Office of the Superintendent of Financial Institutions. The holder has no right of redemption. The fair value of the debt based on current interest rates is $120,373.

13. Employee Future Benefits

a) Medical and Dental Benefits and Supplemental Executive Retirement Plan

The Company maintains certain medical and dental benefits for qualifying retirees. The plan has a change going into effect in 2007 which will reduce benefits through a coinsurance feature and a drug formulary which limits alternatives. Future salary levels or cost escalation do not affect the amount of employee future benefits and the accumulated benefit method has been used to determine the accrued benefit obligation. The accrued benefit obligation has been determined as at December 31, 2006. The actuarial valuation was at December 31, 2003.

A supplemental executive retirement plan (SERP) was introduced during 2004. The SERP is a defined benefit plan which tops up the expected benefit of the Company's retirement plan. The accrued benefit obligation has been determined using the accumulated benefit method. The valuation was completed as at December 31, 2004.

(Thousands)

13. **Employee Future Benefits (continued)**

Information regarding the plan's costs, liabilities and actuarial assumptions follow.

	2006			2005		
	Medical & Dental	SERP	Total	Medical & Dental	SERP	Total
Accrued benefit obligation						
Balance at beginning of year	$ 6,974	$ 1,682	$ 8,656	$ 5,891	$ 1,790	$ 7,681
Current service cost	148	79	227	116	84	200
Interest on accrued benefits	383	97	480	352	112	464
Benefits paid	(313)	-	(313)	(290)	-	(290)
Actuarial (gain)/ loss	(2)	(60)	(62)	905	(304)	601
	$ 7,190	$ 1,798	$ 8,988	$ 6,974	$ 1,682	$ 8,656
Funded status						
Funded status of plan - deficit	$ 7,190	$ 1,798	$ 8,988	$ 6,974	$ 1,682	$ 8,656
Unamortized net actuarial gain (loss) prior years	(2,989)	342	(2,647)	(3,341)	304	(3,037)
Unamortized past service cost	549	(1,265)	(716)	640	(1,380)	(740)
Unamortized transitional obligation prior years	(315)	-	(315)	(371)	-	(371)
Other	9	-	9	8	-	8
Accrued benefit liability, net of valuation allowance	$ 4,444	$ 875	$ 5,319	$ 3,910	$ 606	$ 4,516
Elements of defined benefit costs recognized in the year						
Current service cost	$ 148	$ 79	$ 227	$ 116	$ 84	$ 200
Interest on accrued benefits	383	97	480	352	112	464
Actuarial (gains)/losses	(2)	(60)	(62)	905	(304)	601
Past service costs	-	-	-	(732)	1,495	763
Elements of defined benefit costs before adjustment recognized in:	$ 529	$ 116	$ 645	$ 641	$ 1,387	$ 2,028
Experience gain/(loss) during the year	352	38	390	(637)	304	(333)
Past service costs (amortized vs actual in year)	(91)	115	24	640	(1,380)	(740)
Transitional obligation amortization prior years	57	-	57	57	-	57
Defined benefit costs recognized	$ 847	$ 269	$ 1,116	$ 701	$ 311	$ 1,012

(Thousands)

13. **Employee Future Benefits (continued)**

	2006		2005	
Significant assumptions	**Medical & Dental**	**SERP**	**Medical & Dental**	**SERP**
Accrued benefit obligation as of December 31				
Discount rate	5.25%	5.25%	5.50%	5.50%
Return on Co-operators Retirement Plan	N/A	7.00%	N/A	7.00%
Increase in salaries	3.50%	3.50%	3.50%	4.00%
Inflation	N/A	3.00%	N/A	3.00%
Benefit costs as of December 31				
Discount rate	5.50%	5.50%	6.00%	6.00%
Return on Co-operators Retirement Plan	N/A	7.00%	N/A	7.00%
Increase in salaries	3.50%	4.00%	3.50%	4.50%
Inflation	N/A	3.00%	N/A	3.00%
Assumed medical care cost trend rates at December 31				
Initial medical care cost trend rate	8.50% commencing in 2007	N/A	10.50% commencing in 2006	N/A
Cost trend rate declines to	4.50%	N/A	4.50%	N/A
Year that the rate reaches the rate it is assumed to remain at	2011	N/A	2012	N/A

For the medical and dental plans, experience gains and losses are amortized over 11 years. For the SERP, the past service liability is being amortized over 14 years.

Measurement uncertainty exists in valuing the components of employee future benefits and the SERP. Each assumption is determined by management based on current market conditions and experiential information available at the time, however, the long-term nature of the exposure and future fluctuations in the actual results makes the valuation uncertain.

Sensitivity Analysis:

Assumed medical and dental benefits cost trend rates have a significant effect on the amounts reported for the medical and dental benefit plans. A one-percentage-point change in assumed medical and dental benefit cost trend rates would have the following effects for 2006:

	Increase		Decrease	
Medical and dental benefits				
Total of service and interest cost	$ 120	22.6%	$ (102)	(19.3)%
Accrued benefit obligation	1,435	20.0%	(1,278)	(17.8)%

b) Pension Plans

The Company has a defined contribution pension plan for all of its operations.

	2006	2005
Contributions to pension plan		
Company	$ 2,620	$ 2,314
Employees	1,856	1,639

14. Capital

Number of shares not in thousands

Authorized
100,000 common shares
250,000 preference shares, issuable in series with attributes set by the Board of Directors; shares are only redeemable on approval of the Board and the Office of the Superintendent of Financial Institutions

Issued and fully paid	2006	2005
20,000 common shares	$ 1,000	$ 1,000
20,000 non-cumulative redeemable preference shares	2,000	2,000
50,010 non-cumulative redeemable second preference shares	5,001	5,001
	$ 8,001	$ 8,001

15. Income Taxes

The provision for income taxes varies from the expected provision at statutory rates for the following reasons:

	2006	2005
Net income before income taxes	$ 74,012	$ 66,628
Combined basic Canadian federal and provincial income tax rate	35.0%	36.0%
Income taxes based on above rate	$ 25,904	$ 23,987
Decrease resulting from permanent differences	(3,672)	(2,383)
Reduction in future tax rates	(1,733)	(483)
Large corporations tax	-	318
Other	503	1,209
	$ 21,002	$ 22,648
Income tax expense is comprised of the following		
Current	$ 26,060	$ 27,217
Future	(5,058)	(4,569)
	$ 21,002	$ 22,648
Effective tax rate	28.4%	34.0%
The future income tax liability (asset) is comprised of the following		
Bonds and mortgages	$ (10,500)	$ (4,200)
Stocks	(18,500)	(15,000)
Real estate	(1,100)	(1,500)
Other assets	(1,540)	(1,688)
Actuarial liabilities	28,591	32,633
Loss carry forwards recognized	(638)	(237)
Other liabilities	(614)	(557)
Employee future benefits	(1,900)	(1,600)
	$ (6,201)	$ 7,851

The change in the future tax liability account includes an adjustment resulting from a related party transaction entered into during the year (Note 18).

16. Participating Account

The Company issues insurance contracts to policyholders which provide for their participation in the profits of the operation. The undistributed participating policyholder income is $22,977 (2005 - $24,382).

These policyholders will, based on the contribution of the class of policy to the distributable surplus, be eligible to participate in the distribution of the surplus by means of annual dividends. Equity is maintained between classes of policyholders and generations of policyholders. The dividends paid during the year were $10,736 (2005 - $11,677).

The accrual method is used to determine the shareholder portion of participating income. Reflected in shareholder income for the year is its share of participating income of $1,711 (2005 - $1,983). Section 461 of the Insurance Companies Act (The Act) allows a transfer from the participating account to the shareholders' account based on actual dividends paid during the year. The amount allowed under The Act is $648 (2005 - $723). The additional amount of $1,063 (2005 - $1,260) is appropriated in the participating account for distribution when allowed by The Act. The total amount appropriated at the end of the year is $18,654 (2005 - $17,714).

17. Net Income Available to Shareholders

The net income available to shareholders includes the net income of the non-participating policies, investment earnings credited to the shareholders' account and the shareholder portion of participating policyholder income before dividends.

18. Related Party Transactions

The Company's ultimate parent is The Co-operators Group Limited (the Group). In the normal course of business the Company provides group insurance programs, acts as service provider for data processing applications and leases space to companies in the Group. The Company obtains investment counselling services from Co-operators Investment Counselling Ltd. Product distribution is provided by Co-operators General Insurance Company, and management services are provided by the Group. With the exception of management services, all the other services are in the normal course and are established at terms and conditions using available market information.

During the year, the Company entered into sale and repurchase of bonds transactions with related parties, which resulted in an increase in actuarial liabilities of $4,932 and contributed surplus of $4,080, and a decrease in the future tax liability of $9,012. Canada Revenue Agency provided a ruling that allows the transactions between the related parties to result in an increase in the tax base of the underlying bonds.

A real estate sale took place between the Company and Co-operators General Insurance Company during the year. The transaction was recorded following related party accounting rules with the difference between the amounts exchanged and the carrying value included as a credit to contributed surplus of $30.

(Thousands)

18. **Related Party Transactions (continued)**

The following summary indicates the Company's transactions with related parties during the year:

	2006	2005
Premium direct	$ 3,965	$ 5,186
Premium assumed	468	461
Net premium	$ 4,433	$ 5,647
Investment income, net of expense	$ (2,485)	$ (2,272)
Fees and other income	548	502
Net claims	(130)	5
Marketing expenses	29,961	28,572
Net general expense	10,549	5,350

Included in the Company's Consolidated General Fund Balance Sheet at December 31, 2006 are amounts due to related parties of $5,567 (2005 - $6,844) and amounts due from related parties of $161 (2005 - $876). Balances outstanding at the year-end represent current trade accounts with the related parties and are generally settled in 30 days. No security is held.

(Thousands)

19. Consolidated Statement of Cash Flow

a) The investing activities shown in the Consolidated Statement of Cash Flow are comprised of the following:

2006	Advances and Purchases	Sales and Redemptions	Net
Bonds	$ 305,873	$ 250,608	$ (55,265)
Stocks	178,119	168,673	(9,446)
Mortgages	121,792	112,394	(9,398)
Real estate	639	3,751	3,112
Policy loans	8,724	7,074	(1,650)
	$ 615,147	$ 542,500	$ (72,647)

2005	Advances and Purchases	Sales and Redemptions	Net
Bonds	$ 193,720	$ 151,524	$ (42,196)
Stocks	188,226	98,321	(89,905)
Mortgages	135,639	97,221	(38,418)
Real estate	1,959	1,200	(759)
Policy loans	8,316	6,240	(2,076)
	$ 527,860	$ 354,506	$ (173,354)

b) Cash is comprised of the following:

	2006	2005
Short-term investments	$ 114,774	$ 110,893
Bank balance	3,325	4,987
	$ 118,099	$ 115,880

c) Supplemental cash flows are as follows:

	2006	2005
Interest and dividends received	$ 104,198	$ 98,520
Interest paid	11,445	5,724
Income taxes paid	36,526	21,582

(Thousands)

20. Contingent Liabilities

In common with the insurance industry in general, the Company is subject to litigation arising in the normal course of conducting its insurance business. All of this litigation has been reserved for in accordance with industry practice.

In addition, the Company is from time to time subject to litigation other than the litigation relating to claims under its policies. As at December 31, 2006, it is not expected that the total contingent liabilities from all of such actions will have a material adverse effect on the consolidated financial position of the Company.

21. Co-ownerships

The Company has entered into several real estate co-ownerships with varying partners and interests. The effect on the financial statements as a result of co-ownership operations is:

	2006	2005
Assets	$ 15,271	$ 16,188
Liabilities	383	150
Revenue	806	874
Expenses	140	439
Net income	666	435
Cash flow - Operating activities	816	930
Cash flow - Investing activities	3,112	(759)
Cash flow - Financing activities	(3,604)	9

22. Commitments

a) The Company is committed to the following minimum annual lease payments for the next five years:

2007	2008	2009	2010	2011
$ 2,402	$ 2,195	$ 2,110	$ 2,068	$ 2,098

b) The Company has committed to provide mortgage funding of $27,011 in 2007 and $2,153 in 2008.

c) The Company issues letters of credit in the normal course of business. Letters of credit in the amount of $830 were outstanding at December 31, 2006, none of which have been drawn upon at that date.

23. Responsibilities of the Appointed Actuary and External Auditors

The Appointed Actuary is appointed by the Board of Directors pursuant to the Insurance Companies Act. Among the Appointed Actuary's responsibilities is the requirement to carry out an annual valuation of the Company's policy liabilities in accordance with accepted actuarial practice and regulatory requirements for the purpose of reporting to shareholders, policyholders and the Office of the Superintendent of Financial Institutions. In performing this valuation, the Appointed Actuary makes assumptions as to future rates of interest, asset default, mortality, policy termination, expenses and other contingencies, taking into account the circumstances of the Company and the policies in force. The Appointed Actuary makes use of information provided by management and considers the work of the external auditors in verifying the underlying policy and investment data used in the valuation. Examination of the supporting data for accuracy and completeness is an important element of the valuation process. The Report of the Appointed Actuary outlines the scope of the valuation and contains the actuary's opinion regarding the appropriateness of the policy liabilities.

The Appointed Actuary is also required each year to analyze the financial condition of the Company and prepare a report for the Board of Directors. The most recent analysis tests the capital adequacy of the Company until December 31, 2010 under adverse economic and business conditions.

The external auditors have been appointed by the shareholders and policyholders pursuant to the Insurance Companies Act. Their responsibility is to conduct an examination of the consolidated financial statements in accordance with Canadian generally accepted auditing standards and report to the shareholders and policyholders regarding the fairness of the presentation of the Company's consolidated financial statements in accordance with Canadian generally accepted accounting principles.

24. Subsequent change in accounting policies

The Canadian Institute of Chartered Accountants issued new accounting standards "Financial Instruments – Recognition and Measurement" (section 3855), "Hedges" (section 3865), "Comprehensive Income" (section 1530) and "Equity" (section 3251) which will become effective January 1, 2007. The standards will more closely align Canadian accounting practices with U.S. and international accounting practices.

Financial assets will be classified as held-for-trading, available-for-sale, held-to-maturity, or loans and receivables. Held-for-trading and available-for-sale assets will be measured at fair value. Loans and receivables and held-to-maturity assets will be measured at amortized cost. Changes in the fair value of held-for-trading securities will be reported in investment income. Changes in the fair value of available-for-sale securities will be reported in other comprehensive income until the financial asset is disposed of or becomes impaired, at which time it will be recognized in income. Derivatives will be classified as held-for-trading.

Actuarial liabilities are determined according to standard actuarial practice. Under the Canadian Asset Liability Method, the value of the actuarial liabilities is linked to the statement value of the supporting assets. Held-for-trading financial liabilities will be measured at fair value. Other financial liabilities will be measured at cost.

Accumulated other comprehensive income will be included on the consolidated balance sheet as a separate component of shareholders' equity (net of tax) and will include net unrealized gains on available-for-sale securities.

25. Comparative Figures

Certain prior year items have been reclassified to conform to current year presentation.

Board of Directors:

Peter Podovinikoff

Chairperson of the Board
British Columbia

Alexandra Wilson

1st Vice-Chairperson
Ontario

John Lamb

2nd Vice-Chairperson
Alberta

British Columbia

Christine Brodie

Alberta

Johanna Bates
Bill Dobson

Saskatchewan

Karl Baumgardner
Andre Perras

Manitoba

Richard Lemoing
Wayne McLeod

Ontario

Eldon Bowman
Ron Koppmann
Wayne Lee
Sheena Lucas
Leonard Mortson
Terry Otto
Dona Stewardson

Quebec

Paul Godin

Atlantic

Connie Doucette
James MacConnell
Gilles Ménard

Board of Directors: Committees

Executive Committee

Peter Podovinikoff
(Chairperson)
Alexandra Wilson
(1st Vice-Chair)
John Lamb (2nd Vice-Chair)
Bill Dobson
Sheena Lucas
Wayne McLeod

Investment Policy

Eldon Bowman
Jim MacConnell
Leonard Mortson
Andre Perras (Chairperson)
Dona Stewardson

Audit/Conduct Review

Christine Brodie
Wayne Lee
Richard Lemoing
(Chairperson,Conduct Review)
Gilles Ménard
(Chairperson, Audit)
Terry Otto

Corporate Governance

Johanna Bates
Karl Baumgardner
Connie Doucette
Paul Godin
Ron Koppmann (Chairperson)

Resolutions Committee Chairperson

Ron Koppmann (Chairperson)
Committee comprised of one delegate elected from each Region Committee

Management Directory

Standing, from left to right:

Ruth Simons, David Hartman, Randy Grimsrud, Bryan Sigurdson, Rein Tabur, Chuck Wilson, Mary Turtle

Seated, from left to right:

Janice Wallace, Garry Herback, Dan Thornton, Terry MacDonald, Linda Yeo

Co-operators Life Insurance Company

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E-mail: service@cooperators.ca
www.cooperators.ca

Dan Thornton
Senior Vice-President and Chief Operating Officer

Randy Grimsrud
Vice-President, Group Insurance

David Hartman
Vice-President, Wealth Management

Garry Herback
Vice-President, Individual Insurance

Terry MacDonald
Vice-President, Corporate Services

Bryan Sigurdson
Vice-President and Chief Actuary

Ruth Simons
Vice-President, Travel Insurance

Rein Tabur
Vice-President, Investments

Mary Turtle
Vice-President, Finance

Janice Wallace
Vice-President, Group Insurance

Chuck Wilson
Vice-President and General Counsel

Linda Yeo
Vice-President, Information Systems

The Co-operators Group Limited

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Kathy Bardswick

President and Chief Executive Officer

Kevin Daniel

Senior Vice-President, Finance and Chief Financial Officer

Vivien Fong

Senior Vice-President, Chief Information Officer

Frank Lowery

Vice-President, General Counsel and Secretary

Dan Thornton

Senior Vice-President and Chief Operating Officer
Co-operators Life Insurance Company

Dennis Deters

Senior Vice-President,
Member and Corporate Relations and Planning

Doug McLellan

Vice-President, Internal Audit

Graeme Steele

Vice-President, Taxation

Our Mission

The Co-operators:

- Financial security for Canadians and their communities.

Our Vision

We will be...

- The Canadian Champion.
- Where Canadians are, with the financial security products and services they need, when they need them, however they wish to buy them.
- A member of, and contributor to, a strong co-operative community.

Our Values

The Co-operators believes...

- In holding the highest level of integrity as our standard of conduct.
- That our success depends on meeting and anticipating our clients' needs.
- In enhancing the excellence of our products and services through innovation.
- In fostering open communication, teamwork and team spirit throughout the organization.
- Good business depends on responsible corporate citizenship.
- In the co-operative principles, which complement our values.